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With The Editors

The Market Is Always There

INSIDE a few days after the outbreak of war the common stock of Bethlehem Steel gained close to a hundred million dollars in market value. The rally added billions to the valuation of listed industrials as a whole. Naturally there were big and quick trading profits to be had and naturally the relative handful who bought stocks just before the rise began are proud enough of their acumen to do considerable talking about it.

But for every one in that fortunate position there are a few hundred who occasionally take flyers in the market quite aside from their long-term investments and who completely missed this last boat. They have to decide now whether to get in late or to dismiss the whole move as one they were simply unable to catch. The speed and size of the gains gives them a feeling that a good part of the bloom from a trading angle is off, but they are uncomfortable sitting with cash that could be used to duplicate some of the spectacular profits they hear about.

The same kind of money that burns holes in small boys' pockets is troubling many a man today. Particularly on each short reaction they wonder if this is not the chance to make a quick trade which will restore their self-esteem.

The soundest thought in a nutshell, it seems to us, is that the market is always there. If you miss a move which could have been highly profitable you have made only a theoretical sort of mistake, nothing like the one you can make by pressing to make up for lost opportunities. Looking back when you come to reckon profits and losses this phase of the market will have no particular importance; certainly it will not be the last chance to buy stocks or the last sharp rally to see coming. No one can be in tune with every phase of either a bull or a bear market, can sense at all times what is happening, and why, and how best to handle the situation.

If this move has been one you could not anticipate and do not quite trust and understand, then let the others have the fun for a while until you have a conviction that prices are right for action. The money you lost by not being aboard this rally is very flimsy, cobwebby stuff compared to the hard cash you'll risk trying to make up for the error in a hurry.

★ ★ ★ IN THE NEXT ISSUE ★ ★ ★

Effect of War Conditions on Leading Industries

BY JOHN D. C. WELDON

What to Expect of Commodities

BY WARD GATES

Our New Foreign Trade Position

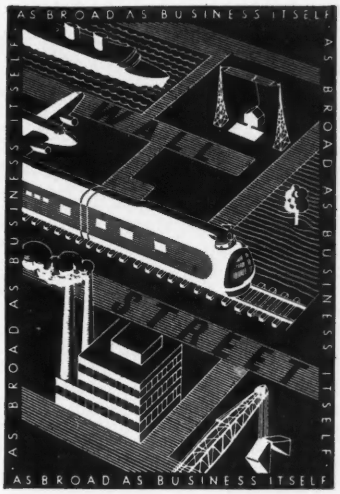
BY JOHN C. CRESSWILL

Triangle Photo

Airplanes in mass flight symbolize modern war as nothing else does. Because all countries are putting primary emphasis on air forces and because the aircraft industry is still relatively small, it will be the most spectacular beneficiary from war. The entire economy in the United States will benefit greatly, however, as long as we remain neutral. Our composite business index in September will show the sharpest spurt in many years. See "Fourth Quarter Business Prospect" on page 598.

THE MAGAZINE OF WALL STREET

C. G. Wyckoff, *Publisher* : Laurence Stern, *Managing Editor*



Questions of the Day

Can a war boom solve the New Deal's fiscal problem?

No solution could be more perfect. Without increasing tax rates the Government's revenues would rise immediately and of course the appropriations for supporting the unemployed would dwindle as more work became available. Not only a currently balanced budget but a serious beginning on the reduction of Federal debt would be made painless. If the boom could be made to last, and if its ending were not too disastrous, the lift given at this time might easily be the lever to change the whole trend of national finances for years to come. The unpleasant corollary is that, without a boom or some such help from events, about the most that can be hoped for is a palliative—not a solution—for the problem the New Deal has posed this and the next generation.

Is there likely to be more than a very moderate firming of interest rates? Will it handicap business?

Chairman Eccles of the Federal Reserve Board predicts easy money "indefinitely." But most disinterested authorities on the subject see a real possibility that the corner in interest rates has been turned already and that although money is not likely to be tight as in the old days it will soon do more to earn its keep. Better yields, lower prices, on the best grade bonds will naturally accompany any such trend; and the cost of capital to business will be slightly affected. No interest rise within predicting range, however, is likely to hold business back from new projects or expansion when profits look dependable. Money may earn more from now on but it will be, if anything, more willing to work.

As long as we remain neutral is there a chance that the Government will establish commodity price controls and special taxes on profits from war orders?

If commodity prices have not been controlled over the last few years it has certainly not been for lack of trying on the Government's part. The whole rigmarole of quotas and subsidies for non-production and elaborate export and barter efforts has been put on with straight faces and frequently devout hopes. Prices of farm products, the particular beneficiaries of all these programs, have been ungrateful enough to pursue their own stubborn course; this recent rise has the one objectionable feature that it was not planned that way. Government control of other prices has been less visible, but increasingly real since the New Deal recovered from the N R A setback. Now with a war giving excuse for much stricter control it seems not at all unlikely that the general policy will actually be eased for at least the near future. Business profits seem to be regaining respectability. The fight within the New Deal is still not won, but if pinned down at this minute to a definite forecast we should be forced to take the stand that meddling

with prices and profits will be kept to a surprisingly low minimum during the first stages of the war's impact on us. Profits on war orders, too, will be free from the more obvious and cramping forms of interference while we are neutral. The managed economy ideal is not forgotten, but the management are ready to sit back for a while and see how the business would run itself if they were to take a vacation.

The Trend of Events

WE ARE NOT NEUTRAL . . . The present so-called neutrality law will not of itself keep us out of direct involvement in war. Revision of the law, as asked by the President and favored by majority public opinion, will not of itself draw us into war. In the final analysis we will go to war if and when our vital interests are threatened. Otherwise not. Whether our vital interests will or will not be threatened at some later stage of this war is entirely unpredictable and will not be determined by the kind of law that Senator Borah wants or the kind that Mr. Roosevelt wants. What are our vital interests? To cite two of the most obvious, the survival of the British navy is a vital interest to us and even more so is maintenance of the status quo in our entire hemisphere, including islands as far distant as Bermuda.

Meanwhile we engage in bitter debate on "neutrality" although, in the strict sense of the term, we are not neutral. We are not neutral in sentiment, for we favor victory for the Allies. We are not neutral in fact, for present law permits the British and French to buy from us most of the types of materials essential to prosecution of war, while circumstances prevent such materials going to Germany.

The distinctions made by Senator Borah and other isolationists are unreal. To nations at war gasoline needed for air forces is contraband precisely as are airplanes. American steel from which a British gun is forged can not be regarded as distinct from the gun. In practical fact the copper used in a shell casing and the cotton and chemicals from which explosive are made are munitions of war. If we barred from export every product and material which the English have already listed as contraband, subject to seizure, we would have not a war boom but a new depression.

In this publication's opinion, the soundest course would be to repeal the arms embargo and put all export trade with nations at war on a "come and get it" basis. This would most closely conform with established principles of international law to which we formerly subscribed. By happenstance not of our making, it would best serve the interests of Great Britain and France.

LATIN AMERICAN TRADE . . . From the beginning of the last war until our entrance in 1917, our share of total Latin American import business rose from about 28 per cent to around 55 per cent. During the same period, Britain's share dropped from approximately 25 per cent to 15 per cent, and Germany's from 15 per cent to zero. Since the end of the war, our share has declined to 30-35 per cent, Britain's has fluctuated irregularly between 10 and 20 per cent, and Germany's has recovered to previous levels around 15 per cent. Now, it would appear, history is about to repeat itself. Germany has already been almost completely cut off from its Central and South American markets and it is difficult to see how England can maintain her trade below the Rio Grande even as well as she did last time. United States exports to Latin America, amounting to $494,000,000 in 1938, may shortly approach the billion dollar mark. There are, however, a number of problems that will have to be dealt with.

The settlement of trade balances is one and involves the closely related question of our imports from Latin America. For our exports can be paid for only in gold or dollar exchange (of which their supplies are limited), or in goods. The hitch, of course, is that with the exception of a few items like rubber and tin, their export products are of the sort we already produce in abundance in our own country or which we are already importing in sufficient quantities. The solution probably will take the form of an extension of credit as well as slow progress toward a more reciprocal arrangement by means of negotiated trade agreements.

STEEL RECOVERY . . . In scarcely more than two and a half months the rate of operations in the steel industry has recovered from 45 per cent of capacity to better than 79 per cent, one of the sharpest gains ever recorded in a comparable period of time. Most of the advance occurred in July and August but the largest week to week gains have come since the war began early this month. In discussing the recent deluge of orders, however, *The Iron Age* reports that "comparatively little of the heavy inflow of tonnage has come from abroad. Export business has expanded, but not as greatly as domestic buying, the chief hindrance being the shipping situation." Whatever the source of demand, it now appears certain that steel operations in coming weeks will approach the best levels of 1936-37 or around 90 per cent of capacity. How long they may be sustained at these levels depends on how soon and on how great a scale Europe will be in the market for American steel—which, in turn, depends on quite a number of factors including not only the shipping situation but also the war's ultimate scope. It is interesting to note that while capacity of the industry is now a good 70 per cent greater than in 1914, some military experts estimate that war today consumes seven times as much steel as formerly.

As I See It!

BY CHARLES BENEDICT

TWO REVOLUTIONS CONSOLIDATED

. . . And on the Loose

WE are getting only glimpses of the magnitude of the danger facing all free men and women as a result of the alliance between Hitler and Stalin.

In this Nazi-Russian pact the world is confronted for the first time with sinister revolution backed by the force of despotic government controlling a war machine of first magnitude. This is a complete change from the revolutionary movements of the past several decades which were carried on surreptitiously—a destructive element industrially—winning adherence in bad times and suffering severe setbacks at the first sign of economic betterment.

With the partnership between Soviet Russia and Nazi Germany revolution reaches maturity, and becomes a virile and malignant force threatening the freedom, lives and property of men the world over—the entire civilization as we know it.

Until now there has been only one difference between the Russian and the Nazi revolution—that of method. This was because the Russians made the original experiment and the Nazis, coming after, were able to profit by its mistakes; and, due to the weakness of the European democratic powers, succeeded in establishing themselves as masters of Germany mainly on the strength of Hitler's foreign bloodless victories.

Now the situation has changed. In the war begun in Poland the Nazis have started on a great adventure, while the Russians are on the march for the first time.

What will it mean to Europe, to us, to humanity, to have these twin revolutionary forces unleashed simultaneously?

And yet, despite its momentary strategic advantages, this alliance between Stalin and Hitler is not a natural one. Actually—while serving Hitler on the one hand—on the other the Nazis have sustained the first important setback to their plan of conquest outlined in "Mein Kampf." For, in spite of Hitler's victory in Poland, he has failed in his objective—which was the wheat fields of the Ukraine. His "blitzkreig," on which he had counted so much in the way of foodstuffs, brings him only the dubious advantage of an additional port on the Baltic, some gain in industrial raw materials and the liability of a Poland in ruins with millions of starving people who have to be looked after.

The speed with which Soviet Russia marched in on a prostrate Poland and staked claim to Polish Ukraine has deprived Hitler of the fruits of his Polish adventure, to secure which he would now have to fight Russia—with England and France hammering on his west wall.

It is apparent that Stalin has outmaneuvered Hitler this time by permitting the Nazis to clear the way for a consolidation of Russian territory in Europe without endangering the Russian position or the Red Army, and brings closer than ever the realization of the ancient Russian ambition for a warm port on the Black Sea.

I cannot help but feel that although the partition of Poland may have been agreed upon between Hitler and Stalin—the Soviets surprised the Nazis by taking their share and failing to wait for Hitler to live up to his promise—which he might have found convenient to forget if it suited his purpose. (*Please turn to page* 639)

Wide World.

Stalin and Von Ribbentrop get together—exact terms unannounced.

How Far Can This Market Go?

Reaction at this writing has cancelled approximately a third of the recent advance. Business activity is rising sharply. We favor trading purchases in the range 150-145, Dow-Jones, subject to reasonably close stop-loss protection.

BY A. T. MILLER

IN the market, as in the war news, it is a fast-changing picture that confronts investor and trader. Within the single fortnight since our last analysis was written Poland has been crushed and Russia has joined Germany in dividing the spoils—leaving everybody guessing whether Stalin has cast his lot definitely with Hitler in a Communazi war against the western Democracies or whether he is playing some more devious game of his own. In the market the fortnight has seen a sensationally fast straight-line advance, followed by reaction which has assumed considerable severity as this is written.

There is an appallingly long list of complex questions involved in the second thought that the market is now taking. Will Germany, with the aid of Russia and possibly of Italy, be able to dictate an early peace to Britain and France? If not, will the specter of Communazism on the march increase the risk of relatively early involvement of the United States? If there is disaster ahead for Europe how can we prosper or capitalism survive? What will be done with the Neutrality law? Have prospective war orders been over-estimated and over-discounted? What of possible price controls and special profits taxes in this country? Will President Roosevelt ride the emergency into a third term?

It is quite impossible to answer all such questions. The soundest course, in our view, is not to try to answer them but to strive for a common sense perspective on the one question into which—from the point of view of investor and trader—the whole problem resolves itself. It is this: In the uncertain period, of indefinite duration, ahead of us is cash more desirable than common stocks?

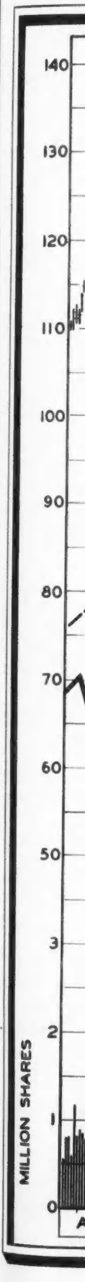
Assuming the worst—namely that revolutionary might will prevail and that western civilization will collapse—the ultimate value of no present currency can be taken for granted. Assuming that Europe is ruined but that the United States manages to remain aloof, the economic dislocations and the inevitable huge building of American armaments would drive our Government toward an ever more inflationary monetary-credit policy and a reduced purchasing power for money regardless of the size of our gold holdings. After all, the worst may not happen and, even if it should, it would probably be many months, if not years, before it happened. Meanwhile we must live from day to day, striving to get on with business as best we can. In this setting we conclude that we would rather hold sound stocks than cash.

While it is true that a minority of "war baby" stocks reached very questionable levels in the initial excitement, those who ascribe the performance of the whole market to a war psychology are far from the real picture. In the nine sessions of boiling advance from the close of August 31 to the close of September 12 our daily index of 40 representative industrials gained approximately 17 per cent. Certainly this was very fast. After the Exchange re-opened in 1914 it took months to record an equivalent gain. But the recent performance is characteristic of our New Deal market. This is not the first time we have seen a stampede of investment and speculative buying, once a major uncertainty was removed.

In June of 1938 the major uncertainty was our domestic business outlook. A sudden and favorable consensus resulted in an advance of 23 per cent in our industrial index in nine sessions from June 18 to June 29. In late September, 1938, the dominating uncertainty was the Czechoslovak crisis, resolved by the Munich agreement. In nine sessions from September 27 to October 7 our industrial index advanced 16 per cent.

At the top of the so-called war advance recently the chief argument against purchase of common stocks was not the high level of the market but the manner in which that level was reached. Solely on domestic business factors, it is not at all hard to justify a higher price level. As compared with the bull market high reached in November, 1938, our comprehensive weekly index of 316 stocks, as of the close Saturday, September 16, was down approximately 9 per cent, while the latest point of our weekly business index is nearly 6 per cent higher than the best level reached last December. The business index has not yet fully reflected the recent heavy wave of new orders by business enterprises, touched off by higher commodity prices.

For the month of September the Federal Reserve

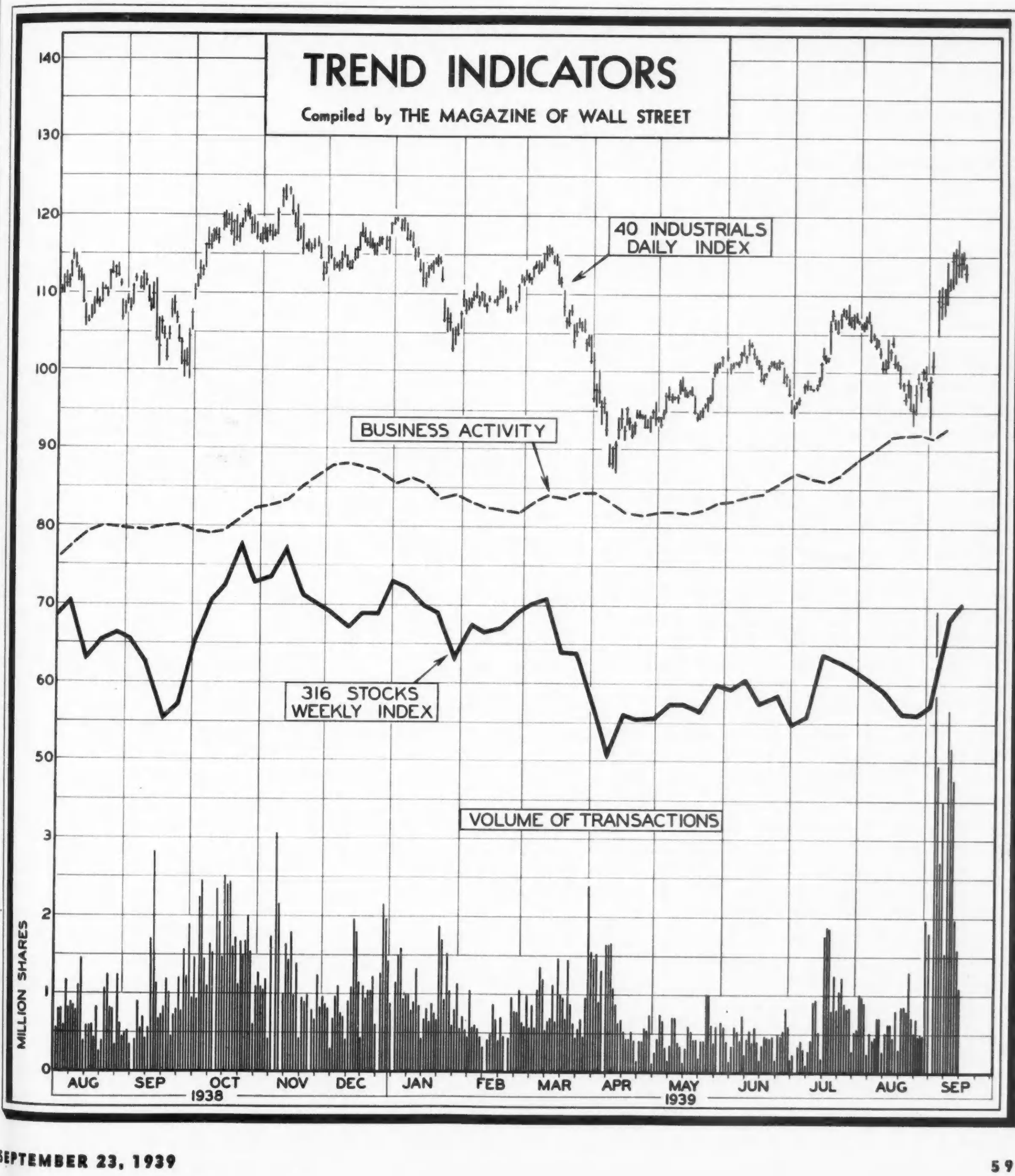


Board production index will record the sharpest gain since the abortive boomlet of the summer of 1933, probably reaching 110, against a 1938 recovery high of 104. It is not improbable that we are headed toward a level of business activity in the near future very close to the highest marks of 1936-1937.

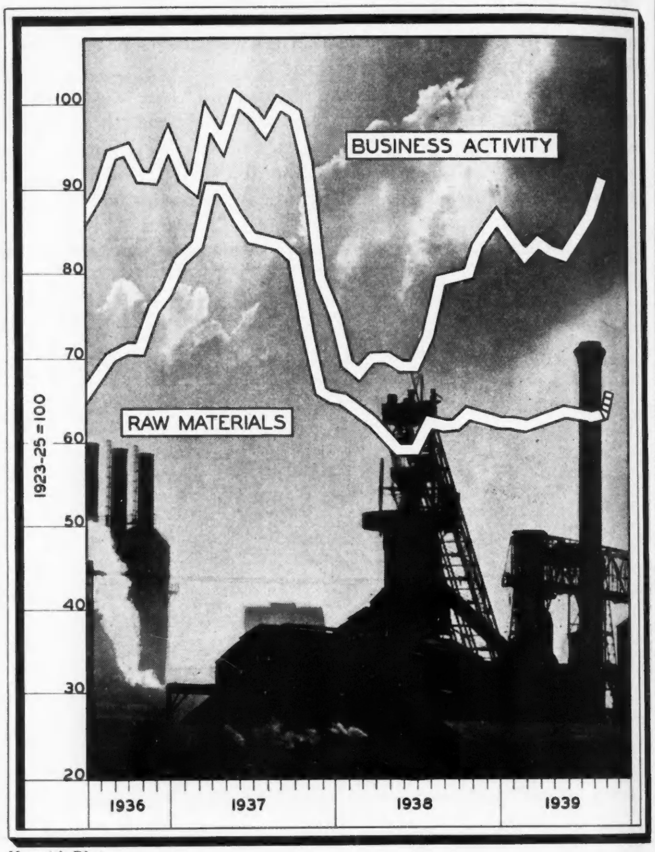
We know there is no enduring recovery in a spurt of forward buying. We know that actual war orders have not yet developed in any important degree. We know it would not be surprising if fast business advance were followed in due course by business reaction. Nevertheless we are inclined to believe worries of this kind are premature and that a seriously vulnerable market position is not likely to be established unless a substantially higher level is reached than prevails at the present time.

As this is written the Dow-Jones industrial average has cancelled approximately one-third of maximum advance of 22 points, on basis of closing prices, since August 31. Even though further disagreeable surprises in the war news are possible, we doubt that secondary reaction should carry under the 145 level, which was the top of the July trading range before war broke out. Accordingly, we recommend selective purchases within the range 145-150. Since almost anything can happen in war, prudent trading policy, in our opinion, calls for use of reasonably close stop-loss protection, either mental or in the form of orders actually placed with brokers.

—Monday, September 18.



Fourth Quarter Business Prospect



Nesmith Photo

Activity Leaps on Forward Buying

BY JOHN C. CRESSWILL

Business plans for the winter are reaching the point of daily rather than monthly revision. For the first time in several years correct policy in handling inventories has ceased to be obvious; and we have been witnesses to a mild stampede on the part of those who were either too conservative or too pessimistic in their buying over the last few weeks, along with the many who are simply running true to form in joining any stampede. A great deal of what has been happening might be dismissed as the flashy type of business news, and some of it undoubtedly should be, but the whole movement toward expansion and acceleration is bringing nearer the time when it will be tested with good old-fashioned profit or loss results. We shall see in the fourth quarter whether the upturn was overplayed in September.

If there were nothing but the war and its visible effects on psychology to give a clue to the permanence of the incipient boom on our hands, the answer would be easy. Bursts of optimism, particularly those based on dramatic and isolated factors, always burn themselves out quickly. The 1933 example is one of the best—sharp recovery, a roaring stock market, then a few months later the letdown that made the gloom thicker than before the spurt. Nothing was ready then except sentiment, which is easily lifted. If that is all we have today, and if in addition the better feeling is to be built up on no sounder foundation than war orders, then the case for business recovery even over the next three or four months is too weak to be dependable.

Back of the sudden spurt that business is taking today, however, stand several months of persistent improvement unchecked by all the forces that could be brought to oppose it. Since mid-April the Magazine of Wall Street's index of business activity has met only one short interruption to its uptrend, and that less than a point, registering a ten-point advance *before* any such consideration as war orders entered the picture. The trend was mistrusted, belittled, explained away, or ignored, but it persisted. Labor unrest, European crisis, political bickering, they were all taken in stride. The pointers were set for a level of activity during early winter probably exceeding that of any except one or two such periods in the last ten years. How much further that trend could have been projected was doubtful, but up until Labor Day it was of the type that gathers rather than loses strength.

The developments since then have raised all estimates of fourth quarter business. Steel operations are in the midst of a sharp jump which may carry to surprising heights. Factory employment and payrolls are extending their gains with very hopeful implications for future purchasing power. Where 105 in the Federal Reserve Board index of industrial production had been considered a good estimate for October, the figure is now slipped into the 110 notch and the following moves are given a good chance of raising it further. The 110 level in this index, it might be remembered, is one that could not be held for more than a dozen months out of the past nine years. All of which suggests a certain amount of skepticism as sensible here, not as to the bulge today

nor as to the excellent level of business over the next few months, but principally toward any efforts to prove that this recent sharp upward slant is the true and enduring trend.

It is more probable in view of the hurried forward buying now going on that the nearest temporary peak in the business activity index will come toward the early part of the fourth quarter rather than toward the end. Productive capacity is geared for a quick pickup, as has not always been the case in the past. Orders now going on the books are in considerable part placed there for protective purposes, to insure against any later difficulties in getting shipments, and when it becomes evident that the faster pace is to be a smooth one it will not be at all surprising to see a slackening in orders as buyers adjust for their previous excesses. It would be disrespectful, of course, to compare big business with the housewives who started a run on the grocery stores for sugar despite the existence of large surpluses of the commodity. Yet to a certain extent business has tended toward the same mistake, overestimating the difficulties in the way of prompt deliveries.

Deliveries More Elastic

Not only producing facilities but the complete process of getting raw materials into their finished shape and into the retailer's hands have been vastly improved since the last war. In point of time a tire put on a car today or a length of copper pipe installed are much nearer the plantation or the mine than they were even ten years ago. Add to this the increased elasticity of production and transportation, the ability to change pace on short notice, and one wonders why a miniature buyers' panic should occur today. There are two valid reasons. The fear of labor troubles is always present now, and particularly when the possibility looms that the unions will strike at the moment when they are hardest to resist. There is a general feeling that the C. I. O. is ready for desperate measures to prevent continued loss of dues-paying members. A successful strike, spectacular in its winnings, would be the perfect tonic for the organization, provided it is not too late for tonics. At any rate the men in charge are hardly ready to let the time run out on them without some attempt to revitalize their cause. Therefore strikes in key industries and at bottlenecks are dreaded.

The other threat to smooth filling of orders is, of course the war. The buying power of the democracies is far nearer to hand than at the beginning of the last war. Their needs in case hostilities are prolonged for years are both larger than on the past occasion and more obvious to all concerned. Should a sudden entry be made into our markets with orders for immediate delivery, the position of laggards among the domestic purchasers might be uncomfortable. So far the rumors of large inquiries have turned out to be hard to track down, and actual orders subject to verification have amounted to nothing. Nevertheless the possibility that the early places on shipping books might be preempted en bloc has been the big artificial stimulus in the minds of purchasing agents all over the country—and in many industries not at all likely to feel any such effects.

Price trends are always a controlling influence, but over the past few weeks their rule has been challenged by these unfamiliar considerations of delivery obstacles. At no time, though, was the price factor omitted from the equation entirely, and it is now returning to its former importance. Business has too much on its hands to think much about inflation at the moment, but it is generally realized that the upturn in most raw materials, industrial and agricultural, has an excellent chance of being extended into a very important influence on the economy. Prosperity is not the result of rising prices, yet the two go together so faithfully in the minds of most businessmen that the one inevitably suggests and helps bring about the other.

The price trend is now an urge to buy, contributing perhaps more than we should like to the current bulge in ordering. Barring any quick reversal in the trend it seems probable that it will bring about a rather complete reversal of the situation with regard to inventories, changing them from the purposely depleted classification to the state of protection against future price rises which sooner or later spells danger. This could happen on a very minor scale within the next few months provided the buying should continue at the present pace and ultimate users should restrain their appetite for goods. It is a risk run by any business pickup characterized by returning confidence, that the confidence should overbuild. And yet the danger here appears more in the nature of a temporary one without alarming implications beyond the possible need of a short correction. It is, however, one of the considerations in moving closer the estimated date of a winter peak from which a short setback might be expected.

Speculative Buying Discouraged

Many steps have been taken to prevent the development of runaway markets and an early crash. In affirming prices unchanged for the fourth quarter the U. S. Steel Corp. attempts to assure consumers that they need not rush all requirements into orders, while at the same time by limiting the application of current prices to those goods actually shipped before the end of the year the company seeks to discourage the type of orders which are simply hedges against possible higher prices. The copper companies have gone to unusual lengths to assure their customers that hurried forward buying is unnecessary. All efforts of the Government are in the same direction of discouraging inventory speculation.

In another month or two most of the indicators used in judging business will have surpassed the corresponding figures not only for last year but for 1937 as well. The trend two years ago need only be recalled to realize the difference today. Business has already made what might have been called a false start, failing early this year to carry on with the 1938 upturn. Now it has begun again from a better level, easily carried into new high ground, and appears definitely committed to an extension of its already impressive gains. This country seems constitutionally unable to carry on steady moderate improvement for long without some overenthusiastic mistakes which must be paid for, and today's trend may run into exactly that sort of trouble in the future. Over the next few months, though, it appears very likely that all industry's troubles will be little ones.

With a mountain of gold, plentiful materials and unmatched facilities in this country, the world looks to us for supplies in war, for leadership in reconstruction when war ends.

The Balance of Financial Power Comes to the United States

By NORMAN TRUMBULL CARRUTHERS

On August 25, 1939, the managers of Britain's Exchange Equalization Account withdrew support from the pound sterling which thereupon plummeted from $4.68, where it had been pegged for several months previous, to recent levels as low as $3.73. Thus the British monetary unit became the first major casualty of the war, succumbing a full week before the initial shot was fired. With it probably went the last vestige of Britain's world financial dominance—the balance of power has crossed the Atlantic to the United States.

Not that the decline in sterling of itself has brought this about. The pound's collapse is significant chiefly in that it reflects an underlying situation that had existed for some time previous. For though the flow of foreign capital into England for several years prior to February, 1938, had raised the pound to around $5, considerably above anything justified by the nation's internal condition, it has since been generally appreciated that sterling could not withstand the impact of war. Hence its decline, at first gradual, lately precipitous, over the past year and a half.

The reaction of the pound to war in 1939 is all the more interesting for the contrast with its reaction in 1914. Upon the outbreak of hostilities twenty-five years ago, sterling went to $7 largely due to conversion of funds realized by British nationals upon liquidation of their American securities. Coincidentally, it will be recalled, our security markets broke sharply, the torrent of European selling forcing our exchanges to close their doors for four and a half months; during that period many leading issues sold much lower on the curb and in the over-the-counter markets. After the initial flurry, the pound returned to a more nearly normal rate *vis-a-vis* the dollar but during 1914 it never sold below $4.85½. Lowest point reached during the entire war was $4.51 for a brief spell in 1915; thereafter it ranged between $4.74 and $4.79.

Today the situation has been completely reversed. Not only has the pound gone down instead of up, but American stock prices have gone up instead of down. Psychological, financial and industrial factors have contributed to the reversal.

There are three principal points of contrast between present psychology and that of 1914. In the first place, while the world did not expect and was not mentally prepared for the last war, the present conflict had long been foreseen and, marketwise, fully discounted. Secondly, it was generally believed in the fall of 1914 that hostilities would be of short duration; this time the opposite view is almost universally held. Finally, international trade was far freer then than now and the major markets of the world, both financial and commercial, were consequently more interdependent and more closely attuned psychologically.

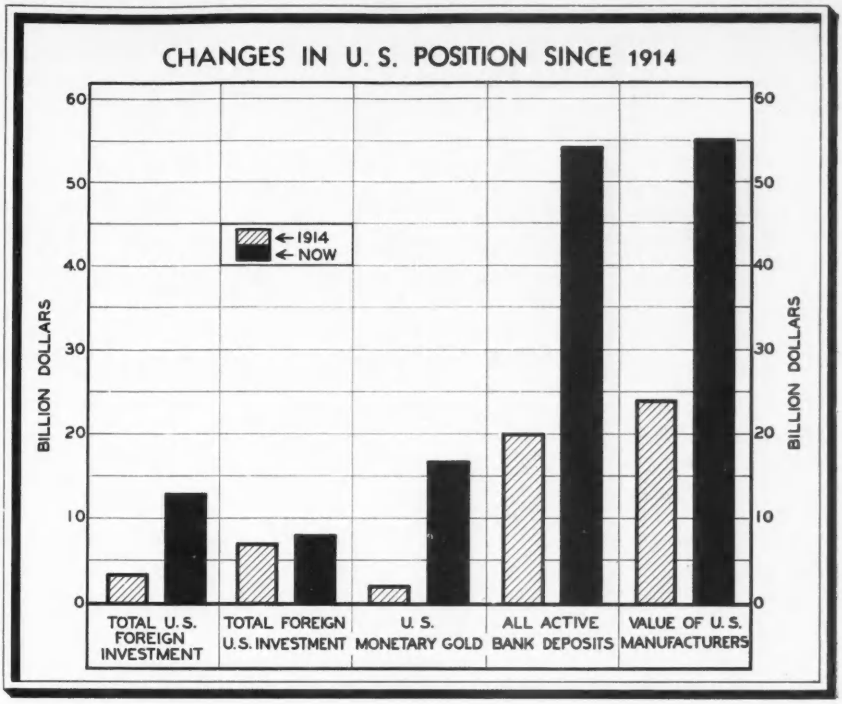
Each of these factors serves to differentiate the situation today from that of a quarter century ago. But, not to decry their significance, there are nevertheless some financial and fiscal contrasts of even greater importance.

Our Changed Financial Position

To begin with, before the last war the United States was a debtor country; now, of course, it is a creditor country—and that quite aside from the matter of intergovernmental obligations. For though foreign holdings of American investments have increased slightly since 1914—from $7 billions to about $8 billions—our holdings of foreign investments have nearly quadrupled, rising from $3½ billions to approximately $13 billions, and are now over 60 per cent in excess of the foreign stake in this country. Since the rest of the world's United States holdings now represent a very much smaller proportion of the total value of our national industrial plant, their prospective liquidation stirs no qualms in our securities markets, particularly since both Britain and France, whose holdings account for about a quarter of the total, have taken steps to prevent dumping.

Then, too, there is the all important matter of gold. At the beginning of 1914, the world's stock of monetary gold was something under $9 billions of which the United States held $1.9 billions or approximately 20 per cent. Today the world's stock is close to $28 billions and our share is $16.7 billions or about 60 per cent. Not only are

holdings of this country alone now more than double those of the entire world twenty-five years ago, but our proportionate share of the total has tripled. Much of the increment in gold stocks in this country, as elsewhere, occurred as a result of mere government fiat, raising the price of the metal over 60 per cent. But that our share of the world's total has increased so sharply can mean nothing other than that the United States has become the most attractive haven for investment funds.



This country is eminently qualified to assume the world financial leadership that has come to it. Our credit facilities are without parallel either in our own history or elsewhere in the world today. Present excess reserves of Federal Reserve member banks are just short of $5 billions and, on the basis of present reserve requirements, could support a credit expansion of about $28½ billions; should requirements be reduced to their legal minimum, an expansion of $50 billions would be theoretically possible.

But there is more to it than that. Already the greatest industrial and agricultural nation in the world, America bids fair to challenge Britain's commercial supremacy. For though there seems to be no likelihood that England's mighty merchant marine will disappear from the seas (even if Germany's submarine warfare continues as effective as it has during the first couple of weeks of the war, which is improbable, it would take about five years to scuttle the British merchant fleet), the fact remains that while England's ships are going to the bottom, ours are coming off the ways at better than one a week.

America's new status as the world's banker raises the question of its economic function now that Europe has again involved itself in holocaust. Obviously we will serve as a major source of materials to the democratic nations abroad whether present neutrality legislation stands or whether, as seems more likely, it is amended to include the cash and carry principle. British and French buying power, including gold and readily marketable American investments and deposits, is estimated at about $7 billions. Other possible sources of buying power are exports of merchandise to us and credit extended by us. This latter source is now precluded by law (except through the R F C and the Export-Import Bank which are exempt under the Johnson and Neutrality Acts), but the chances are that if Britain and France find themselves seriously in need of credit as the war wears on, a way will be found to extend it.

There is little doubt that business activity in this country will be tremendously stimulated by hostilities abroad. Even though Britain and France took only a third of their imports from us during the last war, purchases of these two countries during the period of our neutrality totaled some $7 billions; from the date of our entrance until the end of 1920, we exported another $12 billions worth of goods to the Allies. And the potentialities this time, particularly in certain fields, have been greatly increased. It is estimated, for example, that modern war requires seven times as much steel as formerly.

But trade with the belligerents will be only part of the story. Fully as important in the long run should be the new markets opened to us in Japan and South America, markets until recently served by England, France and Germany.

Responsibilities of the Future

It would appear, therefore, that war and the economic and financial realignments it has brought in its wake will be accompanied by a boom, not only in this country but throughout the entire neutral world, the ultimate proportions and ultimate cost of which in terms of peace time maladjustments and depression cannot now be foreseen. But one thing at least seems fairly certain: that if America remains neutral or is involved for only a relatively short period, she will be the one nation qualified to lead the way back to normal trade, enterprise and constructive endeavor. The power she will exercise will stem from not only from her industry and trade but from her unequaled financial resources—in short, from her gold.

There are those, of course, who regard this country's plethora of gold as a liability rather than an asset. They argue that the war will gut France and England of their already attenuated stocks, and that after peace comes they will have no course but to demonetize gold and resort to silver or to simple (*Please turn to page 635*)

Happening in Washington

Washington and War

By E. K. T.

Far from being caught napping by the outbreak of hostilities in Europe, the Washington administration was on the job prepared to take all possible steps to protect American interests and moved with seemingly greater speed than the capitals of warring nations. Some say Washington moved too fast, with ominous eagerness to operate under a war psychology.

By the time the first definite reports of military action had reached this side of the Atlantic President Roosevelt proclaimed a state of limited emergency, and before British troops got into action he had summoned a special session of Congress to consider the position of the United States in the conflict. Recruiting is expanding, war orders are being rushed, committees are at work on coordination of industry and transport, control of prices, credits and speculation. Does this mean the administration expects us to be in the war soon? . . . or does it mean that every effort is being made to keep us out?

Ostensibly, and as far as can be learned actually and genuinely, it means that the administration is preparing for any eventuality of war or peace, but with the hope, if not the expectation, that we will keep out of hostilities. But it is no secret that the administration's sympathies are fervently with England, France and Poland and that it wants the United States to do everything possible to help the allied cause short of actually taking up arms. Whether this will eventually lead us into war—next year, the year after—is anybody's guess. It did last time, and it is a common observation that sentiment in the United States is now about where it was in late 1916 after two years of fighting in Europe and six months before we pitched in.

But right now the problems are domestic. Not how to keep out of war, for nothing is apt to happen in the next few months to rouse our fighting blood or bring war to our shores as in the case of some European neutrals, but how to maintain our economic and political equilibrium, how to preserve our trade, how to keep business on an even keel.

First matter, as the President sees it, is revision of what he terms our so-called neutrality law, and that is why Congress is back in session this week. Existence of a prohibition of shipments of arms to belligerents, Roosevelt thinks, emboldened Hitler to strike, so the effect of the law was "un-neutral"; a change now to a policy of "cash and carry" sales to all would help the allies and counterbalance the "wrong" of the act. This may seem just as un-neutral in the other direction, but this argument will sway Congress. For despite all the arguments and theories, Congress will follow popular sympathy with England and France and desire to profit from their potential war orders. Debate may be much longer and more bitter than Roosevelt expects, but before the special session ends our neutrality will be changed to the brand that helps the allies most.

Congress will not amend the neutrality law quickly and go home. It may sit right through for a year with occasional short recesses. All the special and routine matters of the last session will come up again, plus many new ones growing out of or attributed to the war—profiteering, price control, more defense appropriations, business regulation, credit control, alien influences, Presidential powers, and many others.

Next most pressing problem, in official minds, is profiteering. The rush to stock up, from housewives to manufacturers, has caused a price flurry which has already revived that war-coined word, and the administration is determined to prevent profiteering by publicity, by moral suasion, by cooperative action with business, by its present price control measures, by use of the anti-trust laws, and by new legislation.

All price increases will not be opposed. Many, particularly farm commodities, will be welcomed. But the administration is determined to keep price increases in line with each other and with production costs and with consumptive ability.

To keep American business operating on as nearly a normal basis as possible is the task the administration has set for itself. Grateful for any recovery stimulus the war may bring, it is truly fearful of the aftermath of a boom, particularly one based on inflated prices and over-expansion of capacity. While Washington appeared to be acting under the influence of war hysteria the first

few days, it is now trying to keep business calm and cautious. Its multitudinous credit controls are ready for instant action, and its facilities for cooperating with business and securing the internal cooperation of business, while slightly used in recent years, are far and away better than they were 20 or 25 years ago. Hope is to keep prices and profits reasonable, keep peace-time business operating on a peace-time basis, avoid rushing into expansion in anticipation of a long world-wide war, and above all keep business efficient and ready for emergency uses but prevent the growth of a general war psychology.

Washington is ready for whatever may happen—as ready as a democratic government can be. Perhaps too ready, for it seems overly eager to show its preparedness, and some of its preparations have already been shown to have been unnecessary, such as plans for stopping a drop in stock prices on the outbreak of war. But this simply illustrates how the administration, which has always considered its function to be the regulation of our economy, is determined to keep things under its control.

CAPITAL BRIEFS

Price control measures, while being readied, will not be rushed into operation at once if commodities steady down. Administration views recent price jumps as unwarranted flurry and believes that in most staples prices will settle downward somewhat because of ample supplies and little immediate increase in real consumption. But it stands ready with such things as lifting sugar quotas and strict anti-trust enforcement before applying more stringent measures.

Long war preparations are seen in news of actions by France and England to adjust their economies at once to the 1917-18 basis, indicating they are digging in for a protracted conflict and are not counting on an early truce as they did in 1914.

T.N.E.C. plans have been hastily revamped to put emphasis on co-ordination and streamlining of industry for defense instead of digging up dirt on monopolistic practices. Will be particular examination of "bottlenecks" in production with view to eliminating them as patriotic necessity rather than mere law enforcement. First showing of new strategy will be in petroleum hearings next week, which may pack some surprises.

Wide World

Assistant Attorney-General Thurman Arnold, in charge of government attempts to control price irregularities.

"Limited emergency" proclaimed by Roosevelt was sort of jumping the gun though it had immediate uses in recruiting, espionage, and similar defense activities. Chief object was psychological effect on public and to keep President's emergency powers close at hand before Congress got back to meddle with them.

Politics won't be shelved for duration of European fighting, though partisanship will play a smaller role in Congressional consideration of defense and neutrality measures. Talk of a coalition government is bunk; neither party wants it. Republicans of course will serve the government but won't sink their party identity nor lessen their efforts to win the next election, despite attempts to substitute patriotic for political issues.

Third term speculation has increased with war danger, and there is a growing asumption that it will be Roosevelt again, though without good reason why this is inevitable. Republicans and other possible Democratic candidates don't share this view; refuse to consider patriotism as embracing support of an individual, so fight against a third term will continue unabated, or perhaps strengthened by knowledge it will be a real fight.

Business controls patterned on 1918 War Industries Board are being discussed and prepared, but without intention of slapping them on soon. There is no need for them now, and administration wants to preserve picture of democratic processes and avoid all appearance of emulating totalitarianism.

Brain trust is by no means out of administration councils. Consultations with business men is more than window-dressing, for it is realized practical experience is essential, but the social theorists are still busy back-stage, and it should not be lightly assumed the administration has swung to right of center. But New Dealers are divided as to whether war conditions will speed or retard their reform program.

War profits taxes are under consideration by administration, but are not now designed for early presentation to Congress. But in expected revision of revenue laws next spring this subject will be raised from many quarters, and if prices rise much there will be strong pressure for some sort of excess profits tax to curb profiteering. Capital draft in case of war will also come up for discussion, but probably without support of administration.

Farm program may be pulled out of a bad hole by moderate rise in commodity prices. The lard and fats situation, which looked very black a fortnight ago, is already so improved the government may need to do nothing. But Wallace is concerned lest over-optimistic farmers abandon all controls and pro- (*Please turn to page* 638)

Copper Enters Broad Expansion Phase

Prices Higher and Statistical Position Is Strong

BY HENRY L. BLACKBURN

That copper is a major war commodity, no one will deny. It was hardly surprising, therefore, that immediately following the outbreak of the European war shares of leading domestic copper producers soared dramatically and copper prices were advanced on several successive days to the highest levels in two years.

What is probably not as well known, however, are the vast changes which have occurred since the World War in the copper situation—changes which have materially altered the relative position of the United States as a source of supply. Since the initial burst of war-inspired speculative enthusiasm there have been several developments bearing on the copper prospect which have had a somewhat sobering effect upon copper shares. England has officially established maximum prices for copper and other non-ferrous metals. President Roosevelt has gone on record as considering 12½-cent copper high enough to permit producers to show a good profit. And finally, doubts have arisen as to the extent to which belligerent nations will be dependent upon the United States for their copper requirements. Withal, however, the domestic copper prospect is definitely good, if not spectacularly so, and it promises to get better.

In 1917, the third year of the last war, world production of copper amounted to 1,580,475 short tons, exceeding all previous levels. In that year production in the United States totaled 961,016 short tons, nearly 61 per cent of the world output. In 1917 world consumption of copper outside of the United States totaled about 822,000 tons and exports of copper from the United States in the same year were 562,824 tons, or 68.5 per cent of foreign consumption.

That the present war, however, will find the rest of the world relying upon the United States for two-thirds of its copper requirements appears extremely unlikely. For one thing the estimated world capacity for mine output has more than doubled since 1917. As compared with the 1917 high point, world productive capacity is now estimated at 3,340,000 short tons annually. Most of this increase is accounted for by low cost mines in Rhodesia, Canada and Chile. During the period 1914-1918 Canada produced very little copper and not any was produced in South Africa. Last year, operating on a curtailed basis, Canada and South Africa produced over a half million tons of copper, more than enough to furnish the entire requirements of the British Empire. Canada produced 290,000 tons and Rhodesia 237,362 tons.

Domestic productive capacity of copper at the present time is estimated at about 1,100,000 tons, or about one-third of world capacity. Add to this the estimated capacity of foreign copper mines owned by American interests, the percentage of total potential capacity would be increased to nearly 55 per cent. In 1917, the United States controlled 75 per cent of world copper production.

As a result of several important copper mine discoveries in South Africa and Canada in recent years, Great Britain is virtually self-sufficient as regards copper supplies. On the basis of recent production schedules, the

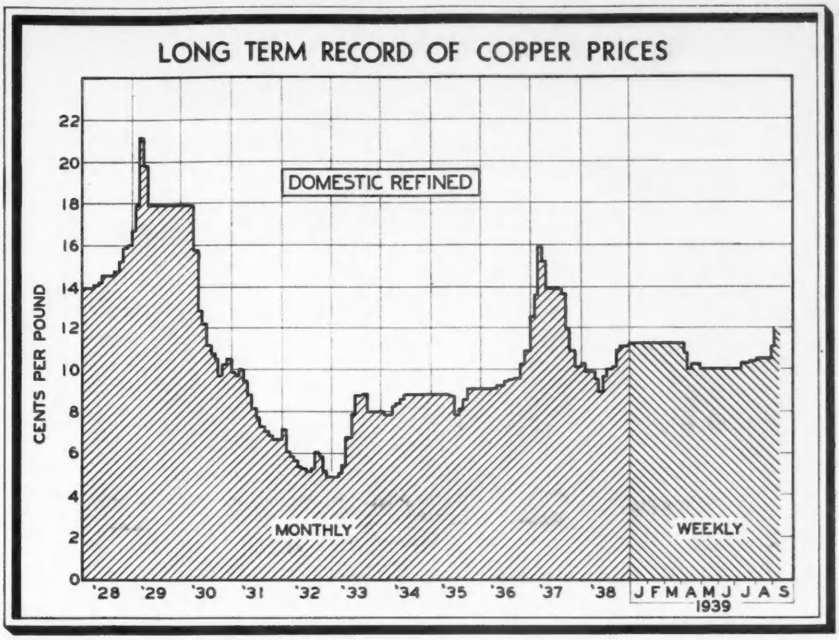
Improving Statistical Position of Copper*

	Production†		Consumption†		Stocks†	
	1938	1939	1938	1939	1938	1939
January	70,487	66,316	24,881	51,059	299,133	301,244
February	53,393	59,452	27,389	48,267	326,244	309,119
March	61,117	66,718	33,434	50,803	342,785	320,812
April	55,749	58,368	31,684	42,484	355,663	332,513
May	47,300	68,536	28,044	51,225	369,809	337,155
June	32,465	61,719	32,863	53,573	358,971	335,012
July	35,596	57,339	41,249	59,681	339,970	316,543
August	38,053	......	48,071	......	315,191	......
September	45,808	......	53,637	......	293,080	......
October	56,824	......	69,827	......	267,299	......
November	66,846	......	51,397	......	269,488	......
December	68,071	......	38,977	......	289,753	......

* Refined. † Tons, 2,000 lbs.

combined output of Canadian and Rhodesian copper mines was at the rate of more than 794,000 tons annually. Potential productive capacity for the whole of the British Empire is estimated only little short of 950,000 tons annually. Together, the United States and Great Britain control about 80 per cent of the potential world copper production.

In mid-August the foreign copper cartel increased production quotas to 105 per cent of basic tonnages. Since then no further action has been taken but it is a safe assumption that in the event of a protracted war all restrictions would be removed. The foreign copper cartel is estimated to represent about 1,100,000 tons of productive capacity, of which foreign mines owned by American interests account for about 600,000 tons.



From the foregoing comparisons it is not only evident that during the past two decades there has been an enormous increase in the world's copper resources and productive capacity but it has been at the expense of markets formerly commanded by domestic producers.

Another important point of difference in the present circumstances is that, whereas in 1914 there was scant warning of an impending war and most European nations were caught unprepared, this time Europe has been rearming feverishly since the Munich crisis a year ago. Large reserve supplies of essential war materials and commodities have been accumulated. During last August large quantities of copper were being purchased in the United States by England, Poland, Japan and Germany, the urgency of the occasion being emphasized by the demand for prompt delivery. As a consequence, although no actual figures are available, invisible stocks of copper abroad are believed to be large. World visible stocks at the end of July, however, were small, amounting to only 173,876 tons of refined copper, as compared with the average monthly consumption of 111,478 tons during 1938 and 105,040 tons in the first seven months of this year.

In 1938 Germany consumed or acquired 373,680 tons of copper of which 362,000 tons were imported. Last year the United States exported to Germany 74,334 tons of refined copper, almost double the amount for 1937, and equal to about 20 per cent of Germany's total imports of copper. Sales to Germany last year were equal to about 18 per cent of all domestic copper exports and were exceeded by only one nation, Japan, which imported about 110,000 tons of American copper. Thus a considerable chunk of the export copper market has been or shortly will be eliminated. The British fleet will see to it that Germany obtains little or no copper from either the United States, Mexico or South America. Germany may be able to obtain copper from Russia but the loss of a 362,000-ton market to the world copper industry is not likely to be immediately offset by increased takings by other belligerents and neutrals.

Although England apparently is no longer dependent upon American producers for copper, it is still quite possible that she may later find it expedient to purchase copper either in the United States or from American owned mines in Mexico and South America. The entrance of Italy into the War on the side of Germany would delay if not imperil shipments from Rhodesia via the Mediterranean.

Right now, however, with the export price of copper 11½-12 cents f.a.s.-N. Y., no domestic copper is being sold to Great Britain. The price of refined copper has been officially fixed by Great Britain at £49 10s per long ton unwrought in warehouse. With the pound at $3.77 (as this is written) this fixed price would be equivalent to about 8.55 cents.

Domestic Producers Gain Important Advantage

With both England and Germany eliminated from the copper export prospect at this time, domestic producers for their export markets will be compelled to depend principally upon takings by Japan, France and the neutral nations, in all of which armament activities are unlikely to show any dimunition. England, however, may supply a large share of French requirements and at a price lower than France might be able to purchase copper in the United States or South America. At the same time the possibilities are that the Latin-American copper mines may supply the bulk of North American exports, rather than domestic mines.

Of domestic copper companies having foreign production, Anaconda and Kennecott are the largest. Anaconda with mines in Mexico and South America, having an estimated annual capacity of 400,000 tons, had a total foreign production last year of 239,731 tons, as compared with strictly domestic production of 77,104 tons. Kennecott's foreign properties last year produced 132,034 tons, while domestic production (*Please turn to page* 639)

Courtesy General Motors

"The World's Most Profitable Business Enterprise"

BY RICHARD COLSTON

From June, 1914, to its 1915 high, General Motors common stock rose no less than 452 per cent. A war baby, obviously—but there was more to it than that. For it was during this period that William C. Durant, through Chevrolet Motor Co., and backed by John Raskob and the du Ponts, was fighting to regain control of the company he had formed with an initial capital of $2,000 some seven years earlier.

Which raises the question of what GM stockholders can reasonably expect in the way of market appreciation now that the Second World War is under way, remembering that this time there are no titans of finance battling for the company's control. And the answer is that, given a fairly long war and continued American neutrality, they can probably expect plenty, even without big-time sponsorship—but nothing like 452 per cent. To understand why not, we have only to contrast the General Motors of today, and its activities in such non-automotive fields as aviation, Diesel power and household equipment, with the General Motors of a quarter century ago.

By August, 1914, Motors had already had a somewhat checkered if brief career. It began in 1908 when Durant, who had spent the previous four years making David Buick's car America's favorite horseless carriage, decided that the automobile was here to stay and that the time was ripe for a little trust building. He had a wide field to choose from—there were then some fifty competing cars on the market—and that three of the eight makes he selected for the combine (Buick, Oldsmobile and Cadillac) are still big names, is a tribute to his peculiar kind of perspicacity.

But despite substantial profits from the very beginning, the new company shortly found itself strapped for working capital. Wall Street came to the rescue but insisted on Durant's retirement in favor of Charles W. Nash. The latter held sway until September, 1916, when his irrepressible predecessor turned up at the annual stockholders' meeting with proxies for a majority of GM's stock in his pocket.

Meanwhile, however, Nash had done a real job, the company's sales having risen from $29,000,000 in its first year of operation to $85,400,000 for the fiscal year ended July 31, 1914. But that 1914 *sales* were less than half 1938 *net income* offers some idea of the contrast between the company's position then and now. Not only was General Motors' business at that time confined entirely to automobiles and parts, but Chevrolet, which has since become by far and away its most important division, was still an independent organization. And, perhaps most significant of all, Motors still rated as nothing more than a likely looking speculation in an

infant industry, a concern that had yet to prove itself.

The first year of the war was the company's best. Sales jumped to $156,900,000 and earnings, at $28,800,000, were double the previous year's figure. But though volume continued to expand thereafter, profit margins suffered from rapidly mounting labor and raw material costs. Net income did not top the 1915 level until the first post-war year, 1919, but then it did so in no uncertain manner. Sales bettered the half billion mark and net rose to $60,000,000. General Motors was definitely on its way and with Durant back in the saddle there was excitement aplenty.

Early Expansion Phase

The period from 1916 to 1921 saw some major acquisitions, among them Chevrolet and United Motors, the latter a bargain at $44,000,000 chiefly because it brought to GM not only the businesses of Hyatt Roller Bearing, New Departure, Remy Electric and several other concerns, but also the services of Alfred P. Sloan and Charles F. Kettering. It was during these years, too, that General Motors Acceptance Corp. was organized and control of Fisher Body was purchased for $27,000,000. Also acquired was a little proposition that Durant had picked up for $56,000 and named Frigidaire.

The decade of the 'twenties was to be General Motors' golden era though it could scarcely have looked that way at the outset. The post-war depression nearly brought the company to its knees. Sales dropped 46 per cent from 1920 to 1921 and in the latter year Motors suffered the only loss in its history, a tidy $38,700,000. GM plummeted in the stock market and Durant, always a heavy operator, was through. Leaving the company's control to the du Ponts and its active management to Sloan, he departed for other parts to build and lose a third fortune. The evolution of the modern General Motors dates from that time.

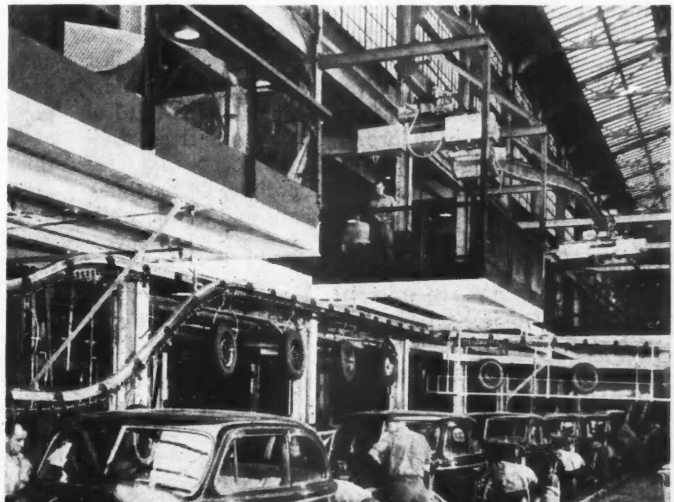
The year 1922 was notable in that William S. Knudsen, formerly Ford's production man, joined GM's ranks and also in that the company's operations were back in the black to the tune of $54,500,000. Interrupted only by a brief setback in 1924, the trend of earnings was steadily upward thereafter, rising to a peak of $296,300,000 in 1928.

In the interim, the company was further expanding the scope of its activities. Ethyl gasoline, at first popularly labeled "loony gas" and actually banned by law in many localities, was developed jointly with Standard Oil of New Jersey in 1924. The following year, the company purchased all the stock of Vauxhall Motors, Ltd., its profitable British subsidiary, and acquired a controlling interest in Yellow Truck & Coach which turned out to be a lemon and required several years of corporate housecleaning before operations became profitable. In 1926, Motors gave the Fisher brothers 665,000 shares of its own common stock in return for the remaining shares of the body making concern. It was also during these years that Frigidaire emerged from the laboratory stage and created a brand new industry.

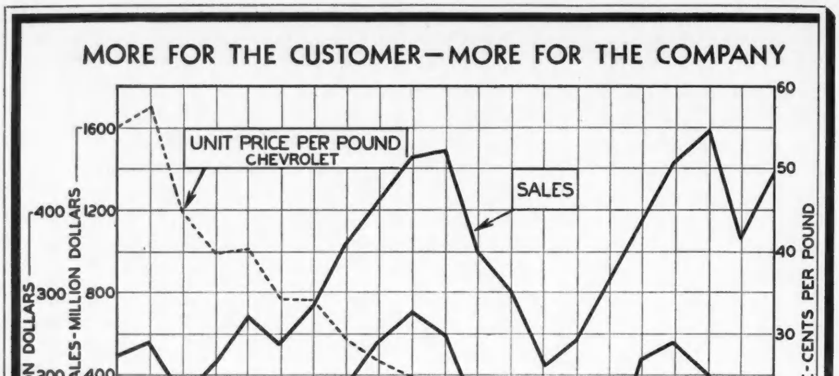
Biggest year in GM's expansion program, however, was 1929. Acquisitions that year included minority interests in Fokker Aircraft, later merged with North American Aviation; North East Electric, now the company's Delco Division; Bendix Aviation; and McKinnon Industries, a Canadian parts manufacturer. Also acquired in 1929 was the remaining minority interest in AC Spark Plug of which Motors had long held 75 per cent control, and all the shares of Adam Opel A.G., the German company whose operations in recent years have been hampered by lack of sufficient raw materials and whose profits GM cannot get its hands on.

Expansion was carried further in 1930 with the formation, jointly with du Pont, of Kinetic Chemicals, Inc., which makes a chemical refrigerant for use in automatic refrigerators, air-conditioning systems, etc., and the purchase of Winton Engine, now General Motors' Cleveland Diesel Engine Division, and Electro-Motive Corp., currently the world's largest manufacturer of Diesel locomotives. There have been some minor acquisitions in more recent years but, by and large, the 'thirties have been devoted mainly to consolidating the expansion gains of the 'twenties.

Such, in brief, is a partial story of the growth and development of the world's most profitable business enterprise. The rest of the story, too long to be fully recounted here, has to do with GM's tremendous strides in the technique of mass production and mass selling of automobiles, with its development, since 1921, of foreign



Production of 1940 Pontiacs is now in full swing.



markets, and with the remarkable business it has built up in parts and accessories. These we will touch upon later. Meanwhile let's have a bird's eye look at the organization as a whole, its physical plant and its products.

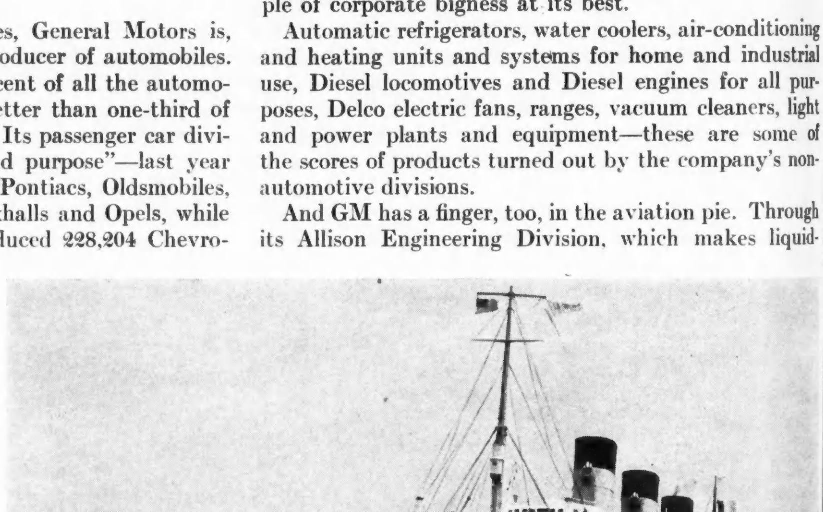
Despite its diversified activities, General Motors is, of course, first and foremost a producer of automobiles. It builds between 40 and 45 per cent of all the automobiles in the United States and better than one-third of all the automobiles in the world. Its passenger car divisions—"a car for every purse and purpose"—last year turned out 1,079,545 Chevrolets, Pontiacs, Oldsmobiles, Buicks, La Salles, Cadillacs, Vauxhalls and Opels, while the commercial car divisions produced 228,204 Chevrolet, GMC, Maple Leaf, Opel, Blitz and Bedford commercial cars, trucks, taxicabs, buses and trailers, or a grand total of 1,307,749 units as compared with 2,116,897 units the preceding year.

But in addition to automobiles, Motors also makes virtually all that goes into them with the exception of tires, textiles and glass. And since there are hundreds upon hundreds of individual parts to every car—horns, locks, lamps, radios, shock absorbers, batteries and so on almost *ad infinitum*—it is in the nature of an understatement to say that GM's manufacturing set-up is extensive and complicated. For including those making Diesels, household equipment, etc., there are some thirty-odd production divisions in the United States and Canada alone, each a self-contained unit and each a big business in itself.

Which incidentally, is the key to General Motors' solution of the management problem. For, with upwards of 100 plants and warehouses here and abroad, frequently widely separated geographically as well as economically, the company is far bigger than even its largest components and far bigger also than any of the men who run it. Decentralization of operations has, of necessity, meant decentralization of management, a sort of private *laissez faire*, the whole held together as a confederation of semi-autonomous states is held together, by a general conclave of individual heads who make up Motors' various operating and policy committees. That this solution of the management problem has proved an eminently satisfactory one is attested, first, by the company's earnings record and, second, by universal admission, even among baiters of big business, that GM is a "good" company and an example of corporate bigness at its best.

Automatic refrigerators, water coolers, air-conditioning and heating units and systems for home and industrial use, Diesel locomotives and Diesel engines for all purposes, Delco electric fans, ranges, vacuum cleaners, light and power plants and equipment—these are some of the scores of products turned out by the company's non-automotive divisions.

And GM has a finger, too, in the aviation pie. Through its Allison Engineering Division, which makes liquid-



In the test shown above, the tug powered by a 900 h.p. General Motors Diesel towed the 43,153-ton Ile de France at the rate of 4 miles per hour.

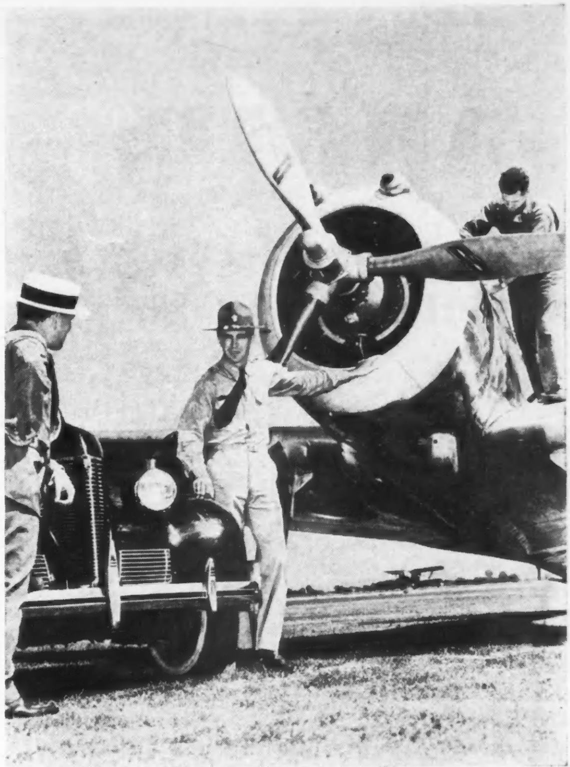
cooled aircraft engines, and its 23.8 and 29.1 per cent minority interests in Bendix Aviation and North American Aviation, respectively, the company's aviation business this year will account for something like 25 per cent of the business done by the entire aircraft industry. Which makes Motors' stake in this field sound a great deal more important than it actually is for, despite the impressive swath it cuts in the industry, its aircraft business is peanuts in comparison with its other activities. Its entire investment in the field accounts for less than 2 per cent of its total assets, and the company could either get out of aviation entirely or gobble up the whole industry without material effect to overall sales and earnings.

Of General Motors' five automobile divisions, Chevrolet is, of course, by far the most important sales and earningswise. Just how important it is has been revealed for the first time in the Federal Trade Commission's recently published study of the motor industry. Figures for the latest year covered—1937—reveal that Chevrolet cars and trucks outsold all the company's other lines combined (excluding Yellow Truck, Vauxhall and Opel) 1.2 to 1 in terms of dollars and 1.6 to 1 in terms of units. Moreover, Chevrolet contributed almost 62 per cent of net profit, before taxes and interest charges, derived from automobile operations.

But if the dominant position that Chevrolet occupies in the General Motors set-up is significant, then of even greater significance is the position of that division's commercial car business. For though Chevrolet passenger vehicles outsold trucks, buses, etc., by about 3 to 1 in 1937, the latter accounted for little less than half of the division's profits. The explanation is that in comparison with a gross margin of $54 per unit realized on passenger cars, $109 per unit was realized on commercial vehicles. All of which indicates that Chevrolet, its commercial as well as its passenger car business, is the *sine qua non of* General Motors profits. But there are two other directions in which the company has greatly expanded its operations and earnings over the past decade and a half. One is overseas and the other is in accessories.

Foreign Business Important

GM began to go after the foreign market in a big way in the early 'twenties just after Durant's departure. Previously only a few thousand cars annually were being shipped abroad; units were being transported whole, freight was expensive and foreign distributors were taking such a big cut and leaving so little for dealers that volume sales were out of the question. All that was changed forthwith. The company began constructing overseas assembly plants at the rate of four a year, mostly in England and Europe, but also in South America, Australia, Asia and Africa. American marketing methods were introduced with gratifying results and manufacturing capacity was acquired in the Vauxhall and Opel concerns whose sales have since advanced by leaps and bounds. True, some of these plants may now be confiscated or bombed. But they have already paid off several times over; and what's a plant or two to General Motors? The foreign field has by no means as yet been fully exploited, particularly in South America, while the war should constitute an ultimate sales stimulant.



General Motors also has a stake in the aircraft field.

As to General Motors' accessory business, its size—plants located in 12 different cities turn out an almost endless list of diversified products—is probably less remarkable than its recent growth. In 1937, the F T C reports, GM's dollar sales of parts and accessories were almost 60 per cent above 1929 and profits from this source were about double. Moreover, the accessory business is less subject to depression influences than the automotive divisions. In 1932, when auto sales were down 75 per cent from 1929 and resulted in a thumping net loss, sales of parts and accessories were off only 47 per cent and yielded a profit equal to 15.7 per cent of gross. Indeed, it was the company's accessory business that was largely responsible for keeping overall operations out of the red that year. But it was a tight squeeze at that for net was not sufficient to cover preferred dividend requirements and, in terms of the common stock, a deficit of 21 cents a share was recorded.

In the recovery years that followed 1932, Motors' earnings rose steadily and for 1936 amounted to $5.35 per common share, only slightly below the $5.44 reported for 1929. Beset by strikes and higher labor and material costs, net turned downward in 1937 amounting, after preferred dividends, to $4.38 on the common. Last year depression took its toll and equity profits dropped further to $2.17, lowest since 1934. But the company's comeback during the first six months of 1939 bears witness of its vitality. First half earnings equaled $2.24 per share of common, exceeding the total for the whole of 1938 and amounting to nearly three and a half times the 66 cents reported for the like period a year earlier. Barring undue delays (*Please turn to page* 640)

AHEAD:—

Selective Recovery For Some Securities Selling Point For Many Others

BY ROGER CARLESON

Following an earlier article on questions affecting every investment decision, this uses the same method of dissecting market action to get at the facts. Economic change has been speeded so greatly in the last decade that we are all in danger of losing touch with actualities, of relying on theories which still sound logical but which no longer fit the circumstances they are expected to interpret. Again three specific industries are laid against the broad background of today's—and tomorrow's—economic setting.—EDITOR'S NOTE.

EVERY investment has two chances to be successful and two to fail. It can be perfectly timed in relation to the main cycle of business and stock market yet lose money because of poor choice of individual security. It can somewhat less easily miss the general uptrend but succeed from the practical standpoint by lighting on the right stock or the right industry which is more powerful than its contemporaries. Occasionally it can score a hit in both endeavors—or fizzle in both.

Of the two objectives there can be no doubt which is the more important and also the more difficult to attain. The worst possible timing in relation to the cycle can be redeemed by correct choice of vehicle, but the contrary does not hold true. Some issues though bought at the very bottom of a depression can never prove profitable investments. Clearly the emphasis upon *when* to buy at the expense of selection is excusable only on the ground that it is an easier nut to crack.

No one can argue with that excuse, but it remains an evasion so long as one deprecates the greater possibilities in the other field. Admit inability to pick them, by all means, but recognize the failing for what it is—a tremendous handicap to either medium or long-term investment success. Also recognize the trend toward greater market selectivity, not lesser; admit, in other words, that the handicap is growing in relative importance. Then look around for a way to eliminate it. Few attempts could be more discouraging as it becomes plain that no tip, formula or crystal ball will help. However, anyone who can claim success in broad timing policies will find that the same reasoning ability *applied to entirely different facts* means improved selection. The difficulty is to get the facts isolated from all confusing cyclical or fortuitous factors. It can be done.

The accompanying chart shows a spectacular bull market in the aviation stocks, which will surprise no one. It brings out the hard times through which the utilities have been going, again a matter of common though not precise knowledge. But it seems to indicate that the bull market in oils continued almost through the middle of last year, and we know that could not have been the case.

Those who read the preceding article on this subject will remember that the lines charted represent not actual changes in the market levels of the three groups but changes in their relation to the whole market. THE MAGAZINE OF WALL STREET's index of 316 common stocks is made up of 43 groups each of which (with a few exceptions) is based upon the 1925 close as 100. This gives a comparison with a quiet stable period, before many of the complications of today were present and before market swings in both directions had broken all records. Now, if we take a certain group and month by month or week by week eliminate fluctuations in the general market from its moves we shall be in effect laying out a straight horizontal line which represents the broad average of the market, with another line moving up and down on the same scale. The fluctuating line is the group taken by itself, deducting from its advances any concurrent advance in the market and reducing its declines

Recent Swings Laid Against Old Records

	Per Cent of 1929 High Reached in 1936-37	1937-38 Lows in Per Cent of 1932 Lows	Recent Price	Per Cent of 1936-37 High
Aviation Corp	40%	150%	5½	59%
Curtiss-Wright	30	229	6½	70
Douglas	181	530	73	89
North Amer. Aviation	89	240	19	109
Atlantic Refining	48	217	22	60
Phillips Petroleum	136	1362	45	70
Standard of Calif.	61	167	30	60
Standard Oil (N. J.)	92	200	50	66
Texas Corp	87	353	49	75
Amer. Water Works	15	63	11	37
Commonwealth & Southern	18	80	1½	27
Consolidated Edison	27	54	30	60
North American	19	110	21	59
Public Service of N. J.	38	89	36	68

in the same way. If the market dips and the group moves up, the two moves are added in order to give the group credit for its true accomplishment.

What happened in the case of the oils was that resistance to the downtrend was above the average for almost a year after the market had turned downward. Consumption figures held up well and it was not until the very season when conditions seemed most promising that the trend of the group's market action changed. Starting a month or two later the danger in the industry's statistical position became steadily more obvious. One may argue that the petroleum industry is always likely to be affected by a lag, turning more slowly in both directions than business in general. That would induce the assumption that oils are poor issues to hold near the bottom of a slump, but it would be no more than an assumption unless the results could actually be seen as they are here. And now that the bad news in the industry has been thoroughly publicized, particularly by the complete shutdowns of production in a number of states, it is possible that switching out of the group may have been overdone. No ground has been lost in relation to the broad average for almost a year, despite the existence of many convincing reasons for selling the oils. Recent action, of course, is under some suspicion until it can be seen how much of it has been due to the "war baby" aspect and how this advantage will stand up over the next couple of months.

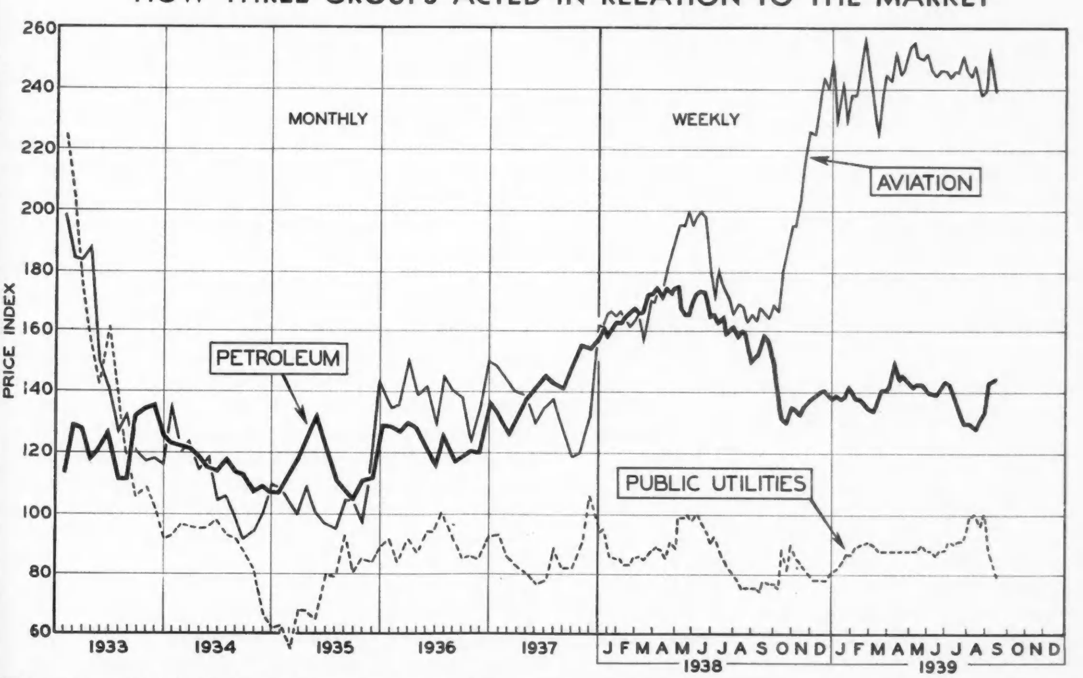
An Even Start

At one time in 1933 all three of the groups shown here came close to regaining parity with each other at around 20 per cent better than the general market. If bought at that time the oils would have since rolled up modest profits over the broad average, public utilities would have shown losses of about the same scope, and the aviation group would have made the type of selective gains for which we are looking. None of the three, however, would have made better than average investments during the first few years of the recovery, being outperformed by many groups which have since turned reactionary.

Public utilities have been under the thumb of political influences for so long that it would be rash to predict a change in the situation. On several occasions the group has shown signs of regaining favor, and with new records for output being set there seems to be a good explanation for these persistent attempts to move up in relation to the market. The latest one has been foiled by the fear of rising costs which would accompany a war boom and which might prevent even large increases in gross from reaching the net income column. Even if such fears should prove to have been exaggerated the burden of proof is on the industry to show that liquidation will not stop the group at somewhere near parity with the broad average, as it has been stopped five times already in the last six years. On the other hand, such outstandingly poor relative action as that of the past two weeks is hardly likely to continue.

The aviation stocks are typical of all "special situation" groups in their erratic performance. These companies are not large by American standards and with their usually modest capitalizations individual orders or experimental successes can affect tremendously prospective earnings per share. Considerable wonder has been aroused over the past six or eight months at the failure of the group to go on reflecting (*Please turn to page* 638)

HOW THREE GROUPS ACTED IN RELATION TO THE MARKET



The Farm Equipments in War

Higher Agricultural Prices Point to Improvement In Sales and Earnings

BY EDWIN A. BARNES

With a European war on one hand threatening their important export market and with prices of farm products soaring on the other, manufacturers of farm equipment are compelled to contemplate the outlook with mixed feelings. Up until the first week in September, any of the leading farm machinery manufacturers would have counted themselves fortunate indeed if sales this year been on a par with 1938, while most of them were expecting a drop of about 10 per cent. The outlook for 1939, with farm prices continuing to drop and the markets glutted with huge surpluses, did not offer much promise. The prospect of a European war of indefinite duration, however, has almost completely altered this prospect.

The farm equipment industry closes its fiscal year on October 31. As a result recent events will have little or no effect on sales and earnings for the current year. Nor are current results, with the year virtually ended, being given any significant recognition in the market appraisal of the shares of leading farm equipment companies. The stock market has become war-minded and is appraising all industrial groups in terms of the potential effects of war upon their business. Between September 1 and September 8, the stock market, as measured by Dow-Jones Industrial Average, recorded a gain of some 13 points, or slightly less than 10 per cent. In the same period the shares of six leading manufacturers of farm equipment recorded an average gain of 5 points, or nearly 20 per cent of the average market price. Thus, in the first burst of enthusiasm based on the potential effects upon American industry, the verdict of the market appears to have been that the farm equipment industry will be more helped then hurt.

Such being the case, the market apparently reasons that higher prices for agricultural commodities and increased farm income will more than offset the virtual disappearance of important export markets.

Farm income and the ability and willingness of the farmer to purchase new equipment naturally are the prime factors upon which the prosperity of the farm equipment industry depend. When farm income rises, equipment purchases increase. Conversely lower farm income means restricted equipment sales. The parallel between farm income and equipment sales, however, is general rather than close, with farm equipment production and earnings showing extremely wide fluctuations and the percentage of both gains and losses has in the past been much greater than the variations in farm income.

Last year, for example, farm income declined 10.6 per cent, while the six leading manufacturers of farm machinery reported net income 46.7 per cent lower than in 1937. The fact that the equipment industry suffered a more severe drop in earnings last year than might otherwise have seemed warranted by the decline in farm purchasing power is the result of a fundamental characteristic of all capital goods. Like his urban cousin who always finds its possible to make his old car or refrigerator last still another year when his earnings are cut or his job threatened, the farmer is rarely faced with an urgency to buy new equipment or replace old. New farm equipment is bought with the money that the farmer has left after he has paid all his taxes, interest, etc. Even in 1937, a year which was the most prosperous for the farm equipment industry since 1929, total farm equipment sales were equivalent to less than 6 per cent of all cash farm income.

It is significant, however, that the percentage of farm income being spent for new equipment is increasing. Fifteen years ago sales of farm equipment were less than 3 per cent of farm income. In 1929 the percentage was 4.4 per cent and after dropping to 2.7 per cent in 1932,

Leading Farm Equipment Manufacturers

Company	Earned Per Share 1936	1937	1938	1939 Price Range High	Low	Recent Price	Dividend
Allis-Chalmers	2.27	4.42	1.44	48⅜	28	45	0.75 (f)
J. I. Case.....	12.37	11.37(a)	8.89(a)	94½	63½	84	5.00(e)
Deere.......	3.14(a)	4.25(a)	2.43(a)	24⅜	15¾	24	None
Int'l Harvester.	5.77(b)	6.31(a)	3.00(a)	71⅝	45⅞	69	1.20 (f)
Oliver Farm Equipt.....	4.24	6.44	0.18	30	14⅛	22	None
Minn.-Moline Pwr. Impl...	0.14	1.26(c)	0.12(a)	6⅜	2⅝	6	None

(a) Year ended Oct. 31. (b) 11 mos. to Oct. 31. (c) 10 mos. to Oct. 31. (e) Paid in 1938. (f) Paid this year.

at the depths of the depression, rose to a new high at 5.9 per cent in 1937. Last year the percentage only dropped to 5.3 per cent. From these percentages, the reported trend toward the increased mechanization of farming in recent years appears to be substantiated.

The industrial leverage responsible for the swift and precipitous decline in farm equipment sales with any deterioration in farm purchasing power is almost equally effective when farm income is rising. Between 1932 and 1937 farm income rose about 100 per cent. In the same period sales of farm equipment increased more than 200 per cent. The fluctuations in earnings were even more spectacular.

All of the leading farm equipment manufacturers reported deficits in 1932. In 1937 all of them showed substantial profits.

Triangle Photo

War, despite large world surpluses, will encourage increased domestic wheat plantings.

In the first seven months of this year farmers' cash income from marketings totaled $3,501,000,000, a decline of 5 per cent from the estimated income for the same months a year ago. Government payments to farmers, on the other hand, have been larger this year than in 1938 with the result that farmers' total cash income for the seven months to July 21 amounted to $3,951,000,000 compared with $3,984,000,000 in the same period a year ago, a decline of less than 1 per cent. For all of 1939 the Bureau of Agricultural Economics has estimated that farm income, including income from products marketed, commodities placed under the Government loan this year, and from Government conservation and parity payments, will probably total about $7,900,000,000. This figure would compare with $8,020,000,000 in 1938 and $8,988,000,000 in 1937 when farm income was the highest in the last ten years.

Current Sales Spotty

The farm equipment industry has two heavy buying seasons—one in the spring, the other in the fall. This year spring buying was restricted by crop uncertainties, and the fall prospect until recently was clouded by the decline in grain prices. Dealers report buying to have been unusually spotty, apparently reflecting the rather freakish distribution of crop yields. This same spottiness has also been evident in rural retail sales which, incidentally turned downward in July after having moved up steadily in the preceding months. Quite obviously, the weakness in the prices of farm commodities and the prospect of lower income caused the farmer to retrench in his spending.

But with the outbreak of another European war accompanied by sharp increases in prices of farm products, farm income in the final quarter of this year promises to be well ahead of last year. At the same time the actual increase in farm income may be rather small in proportion to the substantial recovery in grain, livestock and other farm prices. In fact it might be nearer to the truth to say that the effects of the war upon farm prices and rural income are potential rather than imminent—by the farmer's own choice.

Remembering the heights to which farm prices rose during the World War, farmers will undoubtedly withhold marketings of grains and livestock in anticipation of still higher prices. This prospect coupled with the characteristic lag of nearly a year between changes in farm income and their effect upon equipment purchases suggests that sales gains may be gradual rather than marked, at least over the next six months.

At the same time there is a live possibility that new equipment buying may be accelerated in preparation for increased plantings and the placing of additional farm acreage under cultivation. The Secretary of Agriculture has admonished farmers against an unwise and premature expansion of their production but if it becomes increasingly apparent that the present European conflict will be a protracted one, it is certain that farmers will make every effort to take advantage of it. Such being the case the equipment industry may be treated to an unexpected volume of new orders in the closing months of the year.

In the strict sense of the term, farm equipment companies are not "war babies." During the last World War, it was not until the United States became a belligerent that sales and earnings registered the greatest gains. These gains, however, were coincident with the highest farm prices during the entire war period and not because earnings were augmented by war or munition orders. Literally, the industry did not beat plow shares into swords. (*Please turn to page* 636)

Uncovering Special Situations

Three Sound, But Little Known, Issues with Excellent Earnings and Prospects

BY STANLEY DEVLIN

A FEW of today's thousands of little companies will turn into the giants of tomorrow. Many factors go into such a transition and some are known only to Lady Luck. However, when an established company begins to forge ahead in difficult times, it merits attention. Behind the remarkable achievements of Chicago Flexible Shaft and American Potash lies a careful analysis of the problems they faced and the possibilities open to them. It was sound judgment that brought the Shavemaster to perfection before offering it to the public instead of rushing the market along with the other companies. United Merchants and Manufacturing enjoys considerable leverage and, experienced in the textile industry as it is, has turned a favorable situation to good advantage. All three companies have dynamic aspects that deserve consideration.

American Potash and Chemical

Present Price 90 **Dividend $4.00 (est.)**

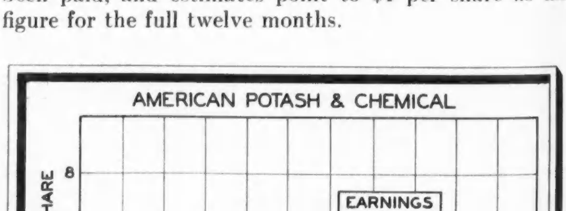
Earnings of American Potash and Chemical passed 1929 levels in 1935 and have moved into new high ground with each successive year. For the first six months of this year they were $2.53 per share against $1.78 per share for the same period a year ago. Prior to the outbreak of war, Europe—especially Germany—supplied approximately 50 per cent of domestic potash requirements. Naturally these imports have come to a sudden halt. Domestic producers, of which American Potash and Chemical is the largest, will, therefore, get better prices and have a wider market for their output.

American Potash takes the brine from which its products are made out of Searles Lake, California. The nearby plant has three units making potash and borax. A by-products division turns out soda ash, salt cake, boric acid, and lithium salts. The brine is pumped from the lake and treated by the Trona process for which the rights were purchased in 1926. It is essentially evaporation followed by fractional crystallization. Potash and borax are crystallized out at different temperatures. The other salts are removed from the hot liquor by traps and filters and are later prepared for commercial use by refining.

The uses for the company's chemicals cover a tremendous range. Potash salts are turned into fertilizer. Potash compounds are used in the manufacture of soaps, textiles, matches, medicine, dyes, and glass. Borax finds its way into bricks, enamel, glassware, cosmetics, and metal-weldings. It is also used to dissolve casein in the manufacture of paper. Production methods are constantly being improved. Though output and taxes were greater in 1937 than in 1936, operating costs were actually lower.

American Potash owns the town of Trona in which 1,000 employees and their families live. Farsighted in labor relations, the company maintains a hospital, school and retail stores on a non-profit basis, and in addition provides a wide variety of recreational facilities. It also owns the Trona Railroad which operates 33 miles of track connecting the plant and town with the main line of the Southern Pacific Railroad. Los Angeles is about 185 miles away.

Capital structure is simple. With neither funded debt nor preferred stock outstanding, ownership rests entirely with the holders of 528,390 shares of common stock. Current assets were $5,517,066 at the end of last year. Cash stood at $2,021,294 or well over twice current liabilities of $925,615. Dividends are established on a conservative basis. The uncertainties of last year led to the declaration of only $2 per share though earnings were $5 per share. This year, however, $2 has already been paid, and estimates point to $4 per share as the figure for the full twelve months.



Currently selling around 90 the stock of American Potash is conservatively priced in relation to demonstrated earning power. In view of the sharply increasing demand for the company's products, it merits attention as an attractive security for income and longer term appreciation.

United Merchants and Manufacturing

Present Price 13 **Dividend $1.00**

Engaged in the silk, rayon and cotton textile business, United Merchants and Manufacturing has made rapid gains during recent months. Textiles are extremely sensitive to business activity and estimates of the company's earnings for 1939 at around $3 per share contrast sharply and favorably with the deficit of $1.59 reported last year. Prices have naturally shown advances as a result of the war, and upward adjustments of inventory values have further helped the company.

Through its subsidiaries, United Merchants operates eight plants having 22 printing machines, 20,000 spindles, and 2,700 looms. A cotton finishing plant and a rayon fabric plant are located in Clearwater, S. C., a rayon throwing plant and a fabric printing plant are located in Fall River, Mass., a rayon plant and a silk fabric plant are located in Louisville, Canada. Other units are operated in Jewett City, Conn.; Paterson, N. J., and Buenos Aires, Argentine. All of these plants with the exception of two small ones are owned in fee by the company or its subsidiaries. Distribution is handled through affiliates, largest of which is Cohn-Hall-Marx Co., of New York.

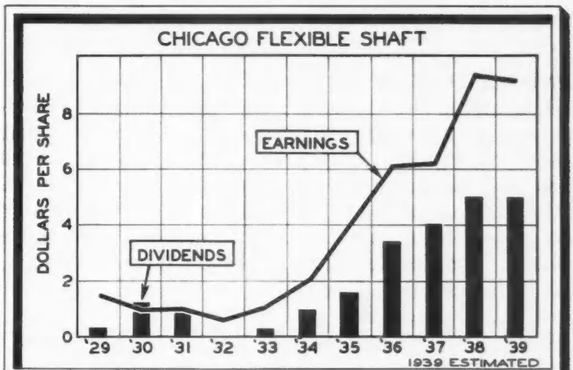
Funded debt is represented by $2,246,000 6 per cent collateral trust bonds due in 1945, and capital stock consists of 599,955 par $1 common shares. Dividends on the common are restricted in accordance with the amount of bonds outstanding. At present and until the issue has been reduced to $1,500,000, no more than $1 per share may be paid in any given year. The last payment was $.50 per share in 1937. The year before that, $.25 per share was paid. Earnings have ranged widely, but the only deficit since 1932 was in 1938, and the average net per share has been $1.54. With the strong comeback in returns this year, $1 seems the likely dividend, and a substantial reduction should be made in the funded debt. This will of course go a long way toward clearing up restriction on dividends in future years.

At current levels of around 13 the stock of United Merchants and Manufacturing does not seem overpriced. The greater majority of the company's customers have followed a hand to mouth policy as far as inventories were concerned. This was excellent during the period of business uncertainty and falling prices of last year. It means, however, that they will make heavy demands on factory production now. Of course the foreign divisions are vulnerable to restrictive measures and taxes. But even here a brighter note is injected by the considerable increase in the United States' trade with South America and the possibility that this will result in favorable revision of currency laws. Of course the real measure of the company's prosperity is domestic business activity, and prospects are good. In view of this the stock seems to warrant consideration as a medium term speculative investment.

Chicago Flexible Shaft

Recent Price 61 **Dividend $5.00**

No stockholder could ask for a better earnings record than that established by Chicago Flexible Shaft. In 1938 the company earned $9.36 per share or over six times the $1.48 reported for boom year 1929. Returns thus far this year indicate that another record is possible though the major portion of wholesale orders for the "Shavemaster," which looms large in the company's sales totals, will not come until fall.



Chicago Flexible Shaft manufactures a fine line of electric irons, heating pads, toastmasters, percolators under the name "Sunbeam," a kitchen mixing machine known as the "Mixmaster," and an electric shaver introduced in 1937 as the "Shavemaster." The shaver has a rotary motor which operates infinitely smoother and is more trustworthy than the "break and make" type motor used by many other manufacturers. Thus though it was put on the market long after the other makes, it was an instant success. Men gladly paid the small difference in price and thereby supplied the refutation of the marketing theory that only a cheaper article can capture a fixed market. The company also makes animal clipping and sheepshearing machines which enjoy a fine reputation in the United States and in Australia. In the paradise for sheep, Cooper Engineering Co., of Sydney, a wholly owned subsidiary, is the distributing agency. Flexible Shaft Co. Ltd., of Toronto, handles distribution in Canada. It is solely a sales organization, all production is centered in Chicago. The steady increase in production has made expansion of plant facilities imperative. This has, however, been carried out on a conservative basis. Thus, expenditures for additional equipment have averaged only $200,000 over recent years. At the present time a new percolator is being developed by the company's technicians.

Capital structure is represented by 179,917 shares of common stock. It is outranked by neither funded debt nor preferred stock. At the end of last year current assets stood at $3,472,054 of which $1,860,456 was cash, against current liabilities of only $782,339. Depreciation charges appear to be ample (*Please turn to page 635*)

As the Trader Sees Today's Market

A Key to Market Quality

BY FREDERICK K. DODGE

It is not at all unusual to see perfectly good market judgment handicapped by inadequate or faulty information. In such cases it turns out that the individual trader looking back can say with complete honesty that if he had known of a certain condition he could have drawn the correct conclusions from it. His reasoning was not to blame; merely the premises from which he worked. The discovery does not help with past mistakes, but it does suggest the direction in which improvement of a trading record lies.

One of the most significant points to watch in any market is the character of participation, whether the buying is sound and for the long pull or of the quick turn, perhaps heavily extended variety. No one has invented a means to measure the quality of the trading on each side and it will undoubtedly always remain a matter of opinion. A rise in brokers' loans can give a hint but not always a dependable one; excessive volume of transactions has the same drawback as a danger signal. Trading in the middle of August, 1937, was at such a torpid pace that few could have suspected a top was being made which would stand up for many, many months. Examples of suddenly heavy volume initiating a rise worth following have been numerous since then.

If one could know the name of each buyer of stocks day by day, how large his resources are, what his intentions are with regard to holding the securities purchased, then this data could form the basis for a complete gauge of the market's quality. With most of the transactions putting stocks into "strong hands," which is to say into hands both able and willing to hold them through a period of uncertainty, there would be considerable inducement to follow along, either on the same long pull basis or as a trading proposition. When too many are trading and investors are getting out, however, the market becomes a Florida real estate affair. The important thing is not to be the last owner when the buyers disappear. Common sense does not necessarily outlaw trading under such conditions but it strongly suggests unusual caution and willingness to abandon positions.

Since no one can be familiar with all the buyers of stocks, their circumstances and intentions, the quality gauge has to be gotten at indirectly. The nearest thing, in the writer's opinion, to a method suited for this purpose is some comparison between the action of the low-priced and the high-priced issues. It would be putting the case too flatly to say that buying in the more expensive stocks represents investment and buying in the cheaper ones is for a quick turn. There are too many exceptions to allow any such generalization and there may infrequently be occasions when the exceptions are in the majority. On the whole, though, it can be shown both empirically and logically that investment tends toward the higher price ranges.

The accompanying chart gives a breakdown of the Magazine of Wall Street's index of 316 common stocks into two lines which represent the 100 highest-priced issues and the 100 lowest-priced, both based on the close on November 14, 1936, as 100. (Issues selling below $1.00 per share are excluded for obvious reasons.) The same methods used in computing the broad index are used in the two special ones; in other words they are not true averages, but index numbers showing percentage changes in the component issues. Fluctuations are therefore comparable between the two in terms of their original base.

A Logical Division

That the breakdown of the 316 stock index into these two parts is on a reasonable basis is shown by the fact that, started at 100 when the broad index was also at that point, the simple arithmetic average of the two has never varied from the broad index by more than a couple of points, although the fluctuations between the two have usually been considerably wider. The starting point was arbitrarily chosen, and there is no attempt to claim that on that date high-priced and low-priced issues were in a state of perfect equilibrium. It happens, though, that over the two years and nine months covered up to the middle of August the weekly excesses of the "low" index over the "high" were exactly equaled by those of the "high" over the "low." Furthermore, the changes in trend between the two are accorded more weight in interpretation than their relative positions on any certain date.

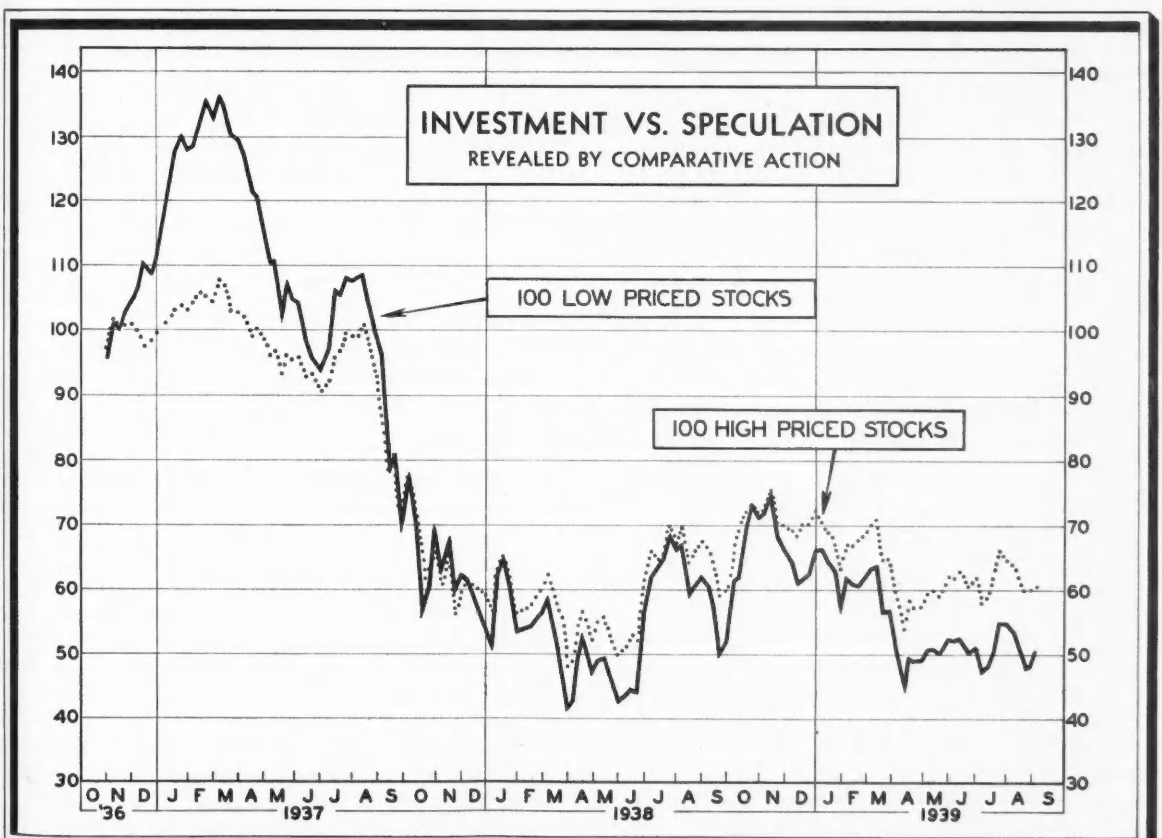
The rapid gains in the "low" index early in 1937 only bring out a fact which was subject to much comment at

the time. It was rightfully interpreted then as a sign of deterioration of quality, although without means to measure the change most comment was restricted to the subject of trading volume which was obviously heaviest in the cheaper speculative favorites. In three and a half months the "low" index gained 36 per cent while the "high" index gained 8 per cent. The spread was not wiped out until the fall of the year, and no spread of consequence in the opposite direction occurred until the middle of October when a selling climax took place. Since then the six outstanding points at which liquidation in the high-priced issues refused to keep up with the selling in the dogs each preceded rallies of from 5 to over 20 points in the broad average.

Speculators turn naturally and probably wisely to the low-priced stocks because they offer much larger percentage gains when the trend is correctly judged. Most of these issues are affected by one or several types of leverage and there are other reasons for their more volatile action which need not be gone into here. The point is that when speculative fervor mounts too high *or too rapidly* (that is, too suddenly) the floating supply is almost inevitably enlarged and some correction is due. When speculators want nothing to do with their erstwhile favorites and are selling them at any price, sometimes to satisfy margin calls, there comes a time sooner or later when although the market may seem to show little resistance yet the investment issues are being quietly absorbed. This is one of the best indications of a reduced floating supply.

It would be wrong to think that the objective is to detect "big" money going into the market. That might be useful too, but it is foreign to the present quest. For this purpose we assume that the man who puts $1,800 into 10 shares of Norfolk & Western is investing and means to hold onto his purchase, while the man who puts $16,000 into 1,000 shares of Southern Railway is taking a flyer. The conclusion is undoubtedly wrong in a great many individual cases but it seems to have merit when broadly applied. No distinction is made, it will be noticed, between odd-lot and round-lot trading or between "professional" and "amateur." The two big questions this study attempts to answer are, first, what are the intentions of the buyers of stocks and, second, what are their resources. For so extremely ambitious an assignment even moderate success is acceptable.

The "low" index, it has already been pointed out, gained 36 per cent against 8 per cent for the "high" in the climax runup to early March, 1937. On the decline lasting a few weeks more than a year the "low" index lost 70 per cent and the "high" 56 per cent. Although a considerable spread between them existed at the bottom of the bear market, they came together again at the top of the rally last summer and most noticeably at the peak set in the autumn. During each rallying phase there were thus interior rallies independent of the visible one, rallies in the low-priced stocks as against the more expensive issues. It is natural for the speculative counters to move faster when the market corrects an overliquidated position, but evidently a sign of danger or uncertainty when investment issues allow themselves to be overhauled very rapidly. (*Please turn to page 635*)



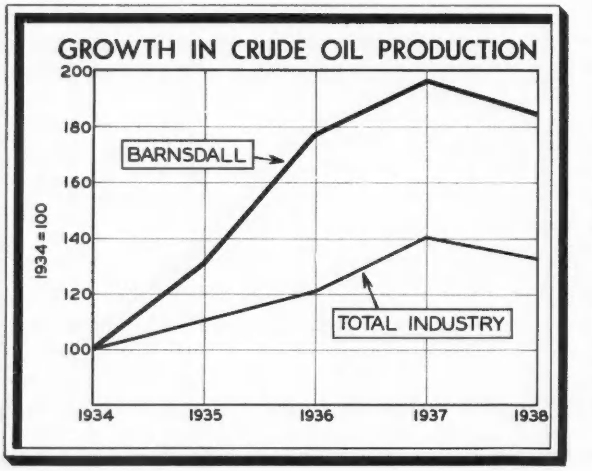
Improved Outlook for Barnsdall

Strong in Crude Oil Reserves and Favored by Prospective War Demand

BY J. C. CLIFFORD

THE smoke of the recent shutdown in the oil fields is rapidly clearing away as it becomes apparent that foreign demands will be added to the steadily-increasing domestic needs. Modern war is geared to the machine and the machine runs on oil. This led a noted Englishman to remark at the end of the last war that the Allies had floated to victory on a sea of oil. With entire regiments mechanized, the power in huge forts supplied by Diesels, and fleets of trucks handling supplies, the statement will be even truer of the winning armies in this war. And much of the oil will come from this country. The step-up in activity brings certain oil producers to the fore as most likely to show profit gains, and a leader of the group is Barnsdall Oil.

The company has an excellent staff of geophysical research engineers with an outstanding record in the location and development of new oil fields. The methods used are a far cry from the divining rod of old. Mainly they depend on the varied resistance of certain rock types to sound waves. Using explosives, they take measurements until oil bearing strata are located. In this way Barnsdall has more than tripled its proven reserves over the last few years, moving up from slightly more than 100 million barrels to over 300 million barrels. Many rich new deposits have been developed in areas that had already been passed over by the geophysicists of other companies. Furthermore the ratio of wells drilled that have become actual producers is fully four times higher than for the industry as a whole. In the Gulf Coast region which presented seemingly insurmountable difficulties in the configuration of the terrain, drilling was accounted a gamble. Barnsdall went down there, developed new methods and brought in the Flour Bluff and Lamar fields.



Barnsdall now operates fields in thirteen states. The largest scene of production is in Oklahoma where 1,177 of its 2,285 active wells are located. Other major fields are in Texas, Kansas, West Virginia, Pennsylvania and California. Intense exploration work is at present carried on in Louisiana on the Point au Fer Island. Located in the heart of a coastal area that has shown rich deposits, in the event that oil is found it could easily be transferred to ocean-going tankers. The company has an option from the Nelson Development Company covering a one-half interest in the oil and gas lease on the property with full rights of operation and management. The expense of drilling a discovery well will be carried by Barnsdall alone. Total land owned or leased by the company amounted to 307,686 acres at the end of last year, and 86,856 acres were actively worked.

Active Subsidiaries

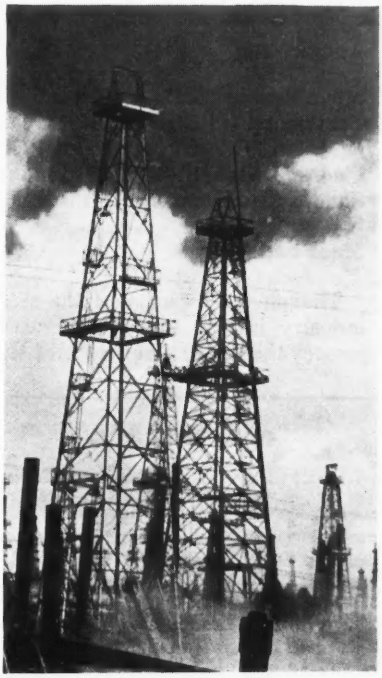
Barnsdall Tripoli Corporation, a wholly owned subsidiary, is engaged in the development of tripoli deposits and other non-metallic minerals, and the milling and merchandising of the products. Tripoli is an almost pure silica of which large deposits are found in Missouri and Northwestern Oklahoma. The mineral is used for the manufacture of filter stones and tripoli flour, which are marketed as abrasives for polishing and buffing and as an admixture for cement, and other uses are found for it by soap, paint, and rubber manufacturers. The tripoli already blocked out on the company's property will keep the mill running for years to come.

A number of natural gas plants are owned by Barnsdall in California, Oklahoma, Texas, Kansas, and Pennsylvania. About 450 miles of pipe lines are also operated. The lines connect with a newly-completed ocean terminal at Corpus Christi, Texas, that has storage space for 1,220,000 barrels of crude oil.

Barnsdall is active in adding to its reserves, and at the same time quick to divest itself of property that

shows signs of becoming unprofitable instead of wasting money on salvage and pumping operations. For example the East Texas lands were sold in 1937 for $1,500,000 cash and 2,500,000 barrels of crude when it became evident that pressure was declining, water was intruding, and pumps would soon be necessary to raise the oil.

Until 1935 the business of the company included both refining and marketing in addition to the production of crude. The secondary divisions had for some time proved to be a drag on the more profitable crude production units. They were accordingly divorced from the parent organization and set up independently. The new company, Barnsdall Refining Corporation, issued 1,129,390 shares of common stock, 21,635 shares of 4 per cent par $100 preferred stock, and $5,000,000 worth of 4 per cent bonds due in 1945. The common stock was distributed to stockholders in the parent company on the basis of one-half share for each share held. The entire funded debt and all of the preferred stock, however, were retained by Barnsdall as investments. This move has enabled the company to concentrate on the production end of the business, and at the same time to pass on profits to stockholders who had heretofore lost a portion of them. Operations of the refining units have continued to show a loss, and corresponding deductions have been made in the book value of the securities held by Barnsdall Oil. Expanding its crude business, the company took over the valuable Oklahoma City Field land of the Midway Oil Company in 1936 by an exchange of stock. In 1937 the Greta Oil Company was absorbed in the same manner.



Triangle Photo

Aggressive in its expansion moves, the company is ultra-conservative in management—a good combination. In 1932 all investments in leaseholds, and oil reserves were written down to $1.00. The usual way is to capitalize them over a period of years. From then on all development work, drilling, lease purchases, etc., was charged directly to current expense. Thus depreciation charges are now necessary only on actual physical property, and the value of new discoveries and additional oil reserves is not reflected in the balance sheet. Much of this is possible because of the comfortable current position. Quick assets at the end of last year stood at $5,010,076 of which $1,549,524 represented cash against current liabilities of $2,125,735. Funded debt is $5,000,000 3¼ per cent serial notes due in equal amounts from 1940 through 1943, and capital stock consists of 2,250,344 shares of $5 par value. Dividends have been placed on a $1.00 per year basis, and earnings over the last few years average out slightly more than this figure. First half returns for this year were 47 cents per share against 75 cents for the same period of last year. This is attributable to recent unfavorable price factors in the industry, but estimates point to $1.25 or better for the full twelve months in view of the spurt in business and a firmer price structure.

An important factor in the earnings of a crude producer is that in most states output is controlled through proration legislation or agreements. The system provides that only a certain amount of oil may be taken out of an established field, and only certain amounts from individual wells in newer areas. It is hotly attacked as a price-fixing move that tends to distort the true picture in the oil industry. This is the view taken by many producers in Illinois, a state that is just developing its oil business and naturally does not want it stunted. They refused to join in the shutdown and to a degree endangered its success by stepping up production. Defenders of proration assert that the primary objective is to conserve the supply of oil and insure that efficient methods will be used in its recovery. Both sides have much in their favor. Certainly artificially set prices are economically harmful. But the waste that was so common not long ago must be condemned. As a whole it seems that proration offers a solution to the problem if the allowable production is revised constantly in accordance with the position of the industry. Storage has often been suggested as an alternative. It is not feasible, and the oil companies have no intention of running crude to tanks at present or lower prices with the expectation of selling later at a higher figure. True, a reserve stock would tend to smooth out production activity. Space, however, costs between 20 and 25 cents per barrel yearly. The policy of producers is, therefore, to keep above-ground stocks of crude at minimum working requirements. At the end of the shutdown certain companies reported that they faced shortages of oil. In this connection, reports from Washington indicate that an upward revision of allowables is inevitable in the face of current pressure. Such a move would of course permit producers to take fuller advantage of the present situation.

The strength and future of an oil producer are guaranteed solely by its ability to expand proven reserves. This compensates for production from known supply, and in so far as the discoveries outrun production it provides the growth factor of the concern. Barnsdall has made remarkable achievements in this direction as we have noted. Actual output along with costs and prices, is of course the measure of earnings and many companies have neglected vital exploration work in order to speed up production from their proven properties. Their position has been weakened and in the current period of increased demand they cannot rank as highly as Barnsdall. The latter has kept additions to reserves on a par with the rapid growth of production which has moved from 4,630,720 barrels in 1933 (*Please turn to page* 640)

For Profit and Income

Bashful Babies

The war market was a week and a half old before some of the "indirect" war babies—issues, mostly in the merchandising and office equipment fields, whose prospects are not directly dependent on war business but which will benefit by any general boom — began to overcome their bashfulness and join in the festivities. The office equipments in particular had been weak at the outset of the war because of their large stake in foreign markets. It is now more generally realized, however, that their overseas business will be helped rather than hurt by European hostilities. Remington Rand, for example, reports that tabulating machine orders received in the first two weeks of September, mostly from foreign governments, exceeded any full month's total in the company's history. Also, Central and South American buyers, formerly served by German manufacturers, are turning to American equipment.

Convertible Bonds

While the general run of highest grade bonds have sold off on the inflationary implications of war, convertible issues have been attracting considerable buying. Bethlehem Steel 3½s of 1952, currently convertible into common at 110, constitute a case in point. Others include Continental Oil 2¾'s of 1948, Great Northern "G" and "H" 4's of 1946, Phelps Dodge 3½'s of 1952 and Phillips Petroleum 3's of 1948.

Steel and War

Though the capacity of the steel industry is now fully 70 per cent greater than at the outbreak of the last war, producers may find it even more difficult to meet the demand this time than before since it is estimated that modern war consumes about seven times as much steel as the old fashioned kind. Some companies have booked a larger volume of business in the past few weeks than during any comparable period since the last war. Though scrap and other material prices have risen sharply of late, finished steel prices will remain at pre-war levels through the rest of the year at least. Earnings will not be restricted thereby since most producers' inventories of raw materials, acquired at lower prices some time back, are sufficient to last the year out.

Out of the Lab

Allegheny - Ludlum presents "Ludlite Bord,", a stainless steel "lumber" said to be easily fabricated and to combine the advantages of stainless steel with the load carrying capacity of sturdy mineral composition backing. * * * Phillips Pete is building a plant for commercial production of its new aviation fuel which has a higher octane rating than ever before obtained and opens the way for higher compression airplane engines having greater power without increased size. * * * Working with a leading oil refiner, Monsanto has developed two new chemicals

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U. S. TOBACCO

Recent Price: 33 **Dividend Rate: $1.28**

This is our regular fortnightly investment suggestion to those interested primarily in income, safety of principal and sound investment standing.

This company is the country's leading producer of snuff. Principal brands are "Copenhagen" and "Bruton's" and output is marketed in the North and Middle West as well as in the South. The company also produces some well-known smoking tobaccos.

Earnings are little affected by cyclical factors and over the past decade have been trending gradually upward from $1.30 per common share in 1929 to $2.22 in 1936. Last year's net amounted, after preferred dividends, to $1.74 on the common. Interim figures are not available, but operating results this year are thought to be running ahead of 1938.

Dividend disbursements have followed earnings, reaching a peak of $2.69 in 1936. Last year's payments totaled $1.35, while distributions thus far in 1939 have been at the rate of 32 cents quarterly.

Company's financial position at the end of 1938 was strong. Current liabilities of $1,343,000 were amply covered by cash alone of $5,410,000, while total current assets amounted to $23,064,000. There is no funded debt outstanding and the company's 1,831,400 shares of no-par common are preceded only by 93,200 shares of 7% $25 par non-cumulative preferred.

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which will add materially to the life of auto engine alloy bearings. Added to lubricating oil, they counteract the slow corrosive action of the oil and also produce greater film strength.

Canadian Stocks

Shares of Canadian companies, notably International Nickel, have been weak spots in the list and it is understood that some of the selling represents a movement of capital from Canada to the United States. Dollar balances, it seems, are difficult to obtain in any other way as banks there are discouraging exchange transactions. Even more selling, however, has probably been prompted by the Dominion's new excess profits tax, which is to be either graduated or a straight 50 per cent, at the taxpayer's option, on all net income in excess of average profits over the past four years. Gold mining companies are thankful that they have not been subjected to any additional levy. During the last war these companies' profits were badly squeezed by skyrocketing labor and material costs. That may happen again but it is also possible that the embattled British empire, needing all the gold it can get, will subsidize their operations.

War Orphans

Not all war babies have silver spoons in their mouths. Some are orphans which stand to lose rather than gain from the European struggle and its manifold consequences. The movie companies, which normally derive about a third of their film rentals from abroad, may suffer in some degree though the recent reopening of picture theatres in Britain is a hopeful straw. The baking concerns are due to see their earnings shrink if wheat soars in price. Woolworth, heavily dependent on profits of its British subsidiary, will feel the effects of the recent sharp drop in sterling.

Aircraft Capacity

Though its backlog of unfilled orders now stands at the unprecedented total of $330,000,000, as compared with $152,000,000 at the beginning of the year, the aircraft industry is still capable of handling additional business since annual capacity of 13 leading manufacturers, operating on a three shift basis, is estimated at about $470,000,000. Army orders now on the books do not call for delivery until the middle of 1941, so new orders could be filled fairly quickly. That domestic transport lines may be the source of substantial business soon is indicated by the record traffic they are handling; pertinent in this connection is American Airlines' recent order for 15 Douglas DC-3s at a cost of more than $1,800,000. All manufacturers are continuing with production against British and French orders; even if the Neutrality Act is not revised, they are protected on this business as contracts were so drawn as to permit delivery in this country in the event of war.

Wartime Earnings

Net income figures for a selected group of companies, listed below, during the World War of 1914-18 are not to be taken as necessarily indicative of how these companies may fare under the wartime conditions of today. They are presented as background data and implications drawn therefrom should be modified in the light of present day circumstances. Figures are in thousands of dollars.

	1914	1915	1916	1917	1918
STEEL					
Bethlehem	$ 5,590	$17,762	$43,594	$27,320	$15,930
Republic	1,029	3,516	14,789	15,857	7,792
U. S. Steel	23,499	75,832	271,631	169,219	125,317
RAIL EQUIPMENT					
American Car & Foundry	2,331	2,816	10,311	11,282	11,772
Baldwin Locomotive	350	2,818	2,619	8,306	5,752
Pullman	10,845	10,547	12,380	13,631	13,401
Westinghouse Air Brake	3,483	1,576	9,396	6,388	9,712
PETROLEUM					
Standard of California	10,058	9,530	17,605	18,649	14,953
Texas Corp.	6,186	6,393	13,898	19,724	20,636
Union Oil	......	2,819	7,225	7,642	6,024
METALS					
American Smelting	20,843	26,248	22,152	18,995	7,706
Anaconda	8,790	16,696	50,828	34,334	20,803
International Nickel	5,598	11,748	13,558	10,130	5,923
FOOD					
American Sugar Refining	5,100	5,597	8,319	8,111	8,433
Armour	7,510	11,000	20,100	21,085	15,248
Corn Products	2,305	3,168	4,000	2,882	3,342
National Biscuit	......	......	4,579	4,622	5,136
FARM EQUIPMENT					
J. I. Case	......	1,932	1,648	2,357	2,353
International Harvester	4,262	3,720	5,137	14,009	14,985
MACHINE TOOLS					
National Acme	......	......	......	3,664	2,345
Niles-Bement-Pond	......	3,771	5,090	3,131	3,182

Market Gossip

A veteran Street observer cites a number of posible developments that may touch off a reaction in the stock market including peace talk, Russian intervention, a hitch in Neutrality revision, rumors of higher margin requirements or call money rates, talk of higher taxes. * * * Rails and oils are favored in some quarters to lead the next upswing. * * * Bulk of trading has been switching and cash buying, brokers report. Advance has simply shifted share ownership from margin to cash accounts. * * * Recent market has been likened to a fast moving vaudeville show, the limelight shifting first to steels, then coppers, then coals, then shipping, then rails, then motors, then oils, then some encores. * * * Collapse of sterling is mentioned as bearish factor since it provides greater incentive for British liquidation of American stocks as proceeds will now amount to much more in terms of sterling. * * * Chart readers are attaching much significance to the market's strong upside breakaway from the apex of the long triangle formed by connecting the 1937, '38 and '39 tops and the 1938 and '39 bottoms. The volume factor was also favorable.

Five Stocks Favored for War Market

Offering a Diversified Stake in Further Business Improvement

Selected by THE MAGAZINE OF WALL STREET STAFF

War, with its vast ramifications, has now become the dominant consideration in all investment and speculative undertakings. Apparently impressed by the prospect of huge war orders to be placed in the United States, speculators and investors alike scrambled to put money, or switch securities, into anything with even a remote resemblance to a "war baby." Sooner or later saner judgment will prevail and some of these war babies will turn out to be foundlings with nobody wanting them. In numerous aspects the present situation is vastly different from what it was in 1914 and the events of 1914-1919 can not be wholly accepted as a reliable precedent. A European war, particularly a prolonged one, promises to have a beneficial effect upon the business and earnings of many American corporations, but to what extent is anyone's guess at this time. In the circumstances, the safest investment or speculative policy would seem to be one which selects only the shares of those companies which appear to be pretty obvious beneficiaries of war business, but which at the same time are so situated both industrially and financially, that they would be major participants in a more normal business recovery, independent of war orders.

Accompanying this discussion is a representative list of such companies. From this list there have been selected, without prejudice to the others, five companies for detailed analysis.

Crucible Steel Co.

The common stock of Crucible Steel Co. is very definitely a "war baby" issue. The company is rated one of the foremost manufacturers of alloy and specialty steels, of which a considerable portion is utilized in the manufacture of high-speed machine tools. In addition, Crucible Steel is equipped to manufacture projectiles, drop forgings, as well as steel for propellers, turbines, shafts, deck plates, rifle bores, etc. Some types of the company's specialty steels are utilized in the manufacture of aircraft engines, structural parts and landing gears. Judging the potentialities of the domestic field alone, are trade estimates to the effect that the percentage of obsolescent machine tool equipment in Government arsenals is in excess of 65 per cent.

As might be expected from the highly volatile character of the steel industry, as well as the specialized character of the company's products, earnings in the past have displayed wide fluctuations. In justice to the company, however, it must be conceded that under anything resembling normal conditions, earning power has been substantial. In 1937, for example, sales totaled nearly $60,000,000 and net income in that year of $4,017,931 was equivalent after allowing for annual dividends on the 238,000 shares of 7 per cent preferred stock, to $5.21 per share for the 450,000 shares of common stock. In 1936 per-share earnings on the common were equal to $3.10. Last year, of course, the company's sales and earnings reflected the severe slump experienced throughout the entire steel industry, particularly in the first six months. In the latter period Crucible reported a net loss of $1,540,360, contrasting with a profit of $3,099,797 in the same period of 1937. For all of 1938, the company reported a loss of $2,237,026, against a profit of $4,017,931 for all of 1937. Results in the last half of the year 1938 showed some improvement over the initial six months, and this improvement has been well sustained in the current year. Contrasting with a loss a year ago, Crucible in the first six months of 1939 reported a profit of $350,821, equal to $1.47 a share on the preferred stock. Sales increased 51 per cent over the first half of 1938 and the gain in earnings would have been more consistent had it not been for the preponderance of small orders on which profits were restricted by handling and other costs. Several new products have been developed, including Rexalloy, an alloy steel for airplane use, which has already reached the commercial stage.

Capitalization consists of funded debt $11,050,000; 238,800 shares of 7 per cent preferred stock on which accumulated dividends amounted to $33.75 at the end of last June, and 450,000 shares of common stock. While the substantial accumulation of dividends on the preferred stock is a

Direct and Indirect Beneficiaries in War

Bethlehem Steel
Crucible Steel
U. S. Steel
International Harvester
General Motors
Montgomery Ward
Sperry Corp.
Westinghouse Electric
Harbison-Walker Refractories
Sun Oil
Niles-Bement-Pond
American Smelting
St. Joseph Lead
DuPont
Monsanto

formidable obstacle to the payment of common dividends, it is to be doubted that the company will experience any undue difficulty, with the benefit of a period of sustained earnings, in making suitable provision for liquidation of preferred accumulations. At last reports, financial position was comfortable. As of June 30, last, current assets, including $5,648,127 cash, amounted to $22,391,518 and current liabilities were $3,635,465.

The company's capital structure is such that considerable leverage is imparted to the common stock, suggesting the possibility of a rapid and substantial rise in per-share earnings once volume has risen sufficiently to meet all operating expenses, fixed charges and preferred dividends. This naturally lends an attractive speculative feature to the common and for anyone seeking a volatile but promising war medium, the shares of Crucible Steel should prove a profitable venture.

Westinghouse Electric & Mfg. Co.

Westinghouse Electric & Mfg. Co., the second ranking company in its field, manufactures a wide variety of electrical equipment, parts and appliances. While a fairly large portion of the company's products are sold to individual consumers, the bulk of sales and profits is provided by sales to industrial, utility and railway buyers. Thus, for the most part operations are geared rather closely to the state of general business and industrial activity, and the willingness and ability of industrial managers to undertake capital expenditures. This characteristic was clearly brought out in the company's 1938 showing. Orders booked last year totaled $149,662,776, compared with $229,540,061 in 1937. Sales billed in 1938 amounted to $157,958,216 against $206,348,307 in the previous year. Unfilled orders at the close of last year were $40,188,150, compared with $60,298,087 at the close of 1937. Notwithstanding the steady decline in bookings through the greater part of 1938, the company operated at a profit in every month of that year. Net profit totaled $9,052,773, equal after preferred dividend requirements on 79,974 shares of 7 per cent cumulative preferred stock, par $50, to $3.38 a share and 2,592,155 shares of common stock. In 1937 a profit of $20,126,408 equalled $7.53 a share on the combined preferred and common stock.

New orders, which began to turn up slightly in the closing months of last year, have responded with increasing vigor to the improved business prospect this year and bookings in the first six months were more than 30 per cent ahead of a year ago. Profits have registered an even more impressive gain. Net income of $6,338,787 for the six months to June 30, last, was 41 per cent higher than for the similar period in 1938 and was equal to $2.37 per share as contrasted with $1.68 in the corresponding months of 1938. Earnings would have been substantially larger had not the company taken $1,419,269 from such earnings to be applied to profits in later months this year. Unfilled orders at the end of last June totaled $52,442,562, an increase of $2,000,000 over a year ago, and a gain of $12,000,000 over January 1, 1939. Reflecting increased earnings, dividends were recently increased to 75 cents a share quarterly after having been paid at the rate of 50 cents a share for the like period since May, 1938.

Courtesy Westinghouse

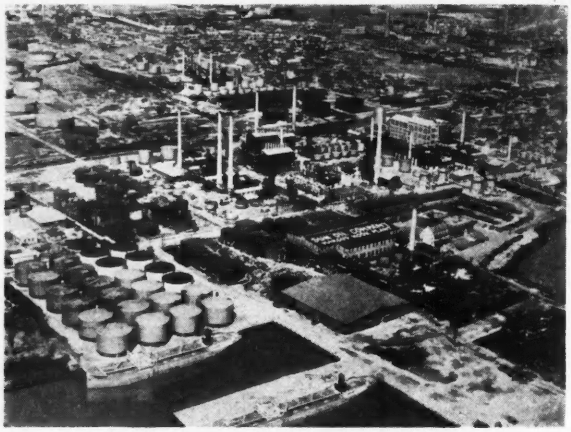
At the end of 1938, current assets were $110,287,349, including $35,651,000 cash, while current liabilities were $11,607,000. Net current assets were equal to about $38 a share on the combined preferred and common stock.

Strictly speaking, the shares of Westinghouse Electric & Manufacturing are not a "war baby." This doubtless accounts for the fact that marketwise, the percentage of recent gains has been moderate in contrast with those shown by numerous other issues which for the time being at least appear to have captured speculative fancy. Present quotations for Westinghouse common around 115 compare with a 1929 high of 121 and a high of 124⅞ in 1938. Relying on precedent, however, it appears that anything calculated to stimulate general business in the United States will inevitably redound to the substantial benefit of Westinghouse Electric. Increased public purchasing power, rising trend of public utility, railroad and industrial equipment needs and extensive shipbuilding programs are factors of promise in the outlook at the present time. Effectiveness of these factors would be increased materially by prolonged European war. The shares combine speculative inducements with longer term investment merit.

Sun Oil Co.

The European war has created a double-barreled opportunity for Sun Oil Co. First, the company promises to be favored by a substantial increase in the export demand for both crude and refined products and, second, its subsidiary, the Sun Shipbuilding Co. holds an important place in the construction of tankers, cargo and passenger vessels. To date the merchant marine program in this country has provided the Sun Shipbuilding & Dry Dock Co. with substantially increased business in the form of orders for three tankers and eight ships, involving a total of $32,976,601. Moreover, the extensive merchant marine and naval construction program which has been outlined for the next several years, would seem to assure the company's shipbuilding subsidiary sustained operations for some months to come. Contributions to the company's earnings from this source likewise promise to be sizable.

Sun Oil is a well-rounded unit engaged in all major



Airview of Sun Oil's Marcus Hook Plant.

phases of the oil industry. The company, in conjunction with Socony-Vacuum, has been active in the development of the Houdry Process of oil refining and is currently undertaking an extensive revision in its refinery equipment. Sun Oil has a 30 per cent interest in the Houdry Process Corp. which, if all the advantages of this process are realized, may well prove to have been a very profitable acquisition.

For some months, the oil industry has been considerably handicapped by impaired profit margins, resulting from excessive production of crude oil, principally in the unrestricted Illinois fields, and burdensome supplies of gasoline. This combination of adverse circumstances has brought considerable pressure to bear upon the price of gasoline, normally one of the most profitable divisions of the oil industry, and despite record-breaking consumption this year profits have declined.

In the first six months of 1939, Sun Oil reported profits of $1,085,898, or the equivalent of 34 cents per share on 2,316,484 shares of common stock, after preferred dividend requirements. This compares with $1,759,686, or 62 cents a share on the common in the first six months of 1938. Last year lower prices for both crude and refined products not only levied a heavy toll on dollar sales of Sun Oil, but also resulted in a substantial decline in earnings. Profits for all of 1938 totaled $3,085,119, equal after preferred dividend requirements to $1.07 a share on the 2,216,484 shares of common stock outstanding at the end of 1938. Net in 1937 was equal to $4.17 a share. In face of the sharp decline in earnings last year, the company took no action on its usual year-end stock dividend, although cash dividends at the rate of 25 cents per share quarterly had been maintained.

Recent efforts to stabilize the industry by closing down all oil well production in six leading oil-producing states, for a brief period, did not materially improve the statistical position of the industry. If, however, the anticipated export demand materializes, burdensome stocks of both crude oil and gasoline should be depleted rapidly, permitting an adjustment of both crude and refined prices to more profitable levels.

Recently quoted around 56, the shares of Sun Oil admittedly are not undervalued in relation to the company's recent earnings. However, when viewed in relation to more normal earning power and the prospect of early and substantial improvement, the shares may be endorsed as a conservative and worthwhile speculative venture.

Harbison-Walker Refractories

Harbison-Walker Refractories is credited with supplying nearly one-third of the domestic requirements of firebrick and various other refractories and heat-resisting materials. The company's products are employed in lining furnaces of steel, non-ferrous metal smelting and allied industries. At least half, if not more, of the refractory materials manufactured in the United States is consumed by the steel industry. Under the circumstances, anything affecting the steel industry promises to find prompt reflection in the operations and earnings of the company.

Coincident with the recent sharp increase in steel manufacturing activity, refractory makers have been treated to an exceptional increase in both orders and inquiries. Steel mills are placing additional blast furnaces into operation and many of these need extensive repairs. Meanwhile, according to *Iron Age*, most steel companies have little or no supply of refractory brick. Likewise inventories at refractory makers' plants are not large. Notwithstanding the sudden rush of business it is understood that refractory brick companies are only accepting orders which can be shipped by the end of September and are booking no new business for fourth quarter shipment until prices are revised. The attitude would seem to imply higher prices in the near future.

With the benefit of sustained steel activity, Harbison-Walker's net earnings in 1936 amounted to $3,462,483 and were equivalent after preferred dividends to $2.41 a share on the common stock. In 1937 net income dropped slightly to $3,131,595, the decline being almost a direct result of the downward trend of steel operations in the third and fourth quarters. Net in that year was equal to $2.17 a share. The slump in earnings which began in the third quarter of 1937 continued throughout most of 1938 with the result that the company's net income dropped to $736,433 and was equal to 41 cents a share on the common stock, after preferred dividend requirements. Earnings rose in both the first and second quarter of the current year and for the six months to June 30, net of $398,700 was equal to 23 cents a share, as compared with $229,600, or 10 cents a share in the first six months of 1938.

Gains in the final six months, however, promise to be substantial, responding to the rising trend of production in virtually all divisions of the steel industry and the prospect of higher prices. Financial position of the company is excellent and outranking the 1,358,883 shares of common stock are only 30,000 shares of 6 per cent preferred stock.

An indirect beneficiary of the substantial volume of war business likely to be received by the domestic steel and copper industries, Harbison-Walker shares recently quoted around 29-30 warrant consideration as a more conservative speculative opportunity. Dividends this year have been paid at the rate of 15 cents a share quarterly and the company's financial position would permit increased dividends promptly with any improvement in earnings. *(Please turn to page 637)*

Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET will answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities.*
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. If not now a paid subscriber use coupon elsewhere in this issue and send check at same time you transmit your inquiry.

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American Water Works & Electric Co.

What are the price appreciation possibilities of American Water Works? Understand recent operating economies place this company in a stronger financial position. However, am concerned over present adjustments under Public Utility Act of 1935. I own 250 shares of the common at 15½. Do you recommend holding?—I. C. M., Brookline, Mass.

Normally, about two-thirds of the consolidated operating revenues of American Water Works & Electric are derived from its electric producing subsidiaries, which operate in the industrialized sections of Ohio, Pennsylvania, West Virginia, Virginia and Maryland. Its water properties operate in twenty-one states and in Cuba, and provide a stable source of income, offsetting the more cyclical returns from the electric properties. In the first half of 1939, gross earnings improved somewhat and good control of costs enabled the company to report earnings on the common stock of 18 cents per share for that period, which compared with earnings of 8 cents per share in the corresponding period of the preceding year. With the electric properties serving such "heavy" industries as the coal, steel and glass, the outlook points toward a continuation of these satisfactory results over the months ahead. The company is fairly safe from the harsher provisions of the Public Utility Holding Co. Act, and in December, 1937, a simplification plan designed to meet the requirements of this Act was approved by the SEC. Poor markets throughout 1938, however, prevented consummation of the plan and the latest annual report stated that a new plan was being prepared. Like the former one, the new plan will doubtless not call for any change in the outstanding securities of this company, but would eliminate certain properties. Finances are very satisfactory and less political antagonism against the utility industry is a further encourgaging factor. Dividends will likely be restored when earnings have recovered to more satisfactory levels, and we feel that the outlook renders the shares of this company a reasonably good vehicle for moderate appreciation, and we consequently recommend retention.

Link Belt Company

Considering improved first half earnings of Link Belt and reports of gains in orders booked, does the current price of around 42 correctly reflect this company's stronger position? I hold 200 shares bought at 48. Do you think well enough of prospects to counsel averaging at present prices?—O. H. B., Little Rock, Ark.

When one considers that Link Belt Company is a heavy industry concern, its earnings record becomes all the more satisfactory. In only one depression year, 1932, did the company report a deficit and that was something less than $1,000,000. Earnings subsequently recovered to more satisfactory levels, and the company reported earnings of 50 cents per share for the first six months of 1939, which compared with earnings of 41 cents per share in the corresponding period of last year. The company makes all sizes and types of material-handling and power-transmitting machinery, such as cranes, car dumpers, grain car unloaders, oil pumping units, sand and gravel washing plants, etc. Detachable chains, on which the business was originally founded, are still an important source of income and this line has been extended to include every type of chain applicable to power transmission. Service and repairs contribute substantially to earnings. The organization is fortunate in having a widely diversified list of customers, with the automobile manufacturing industry normally accounting for about 10% of sales. Thus it can be seen that Link Belt is in an excellent position to benefit from higher levels of industrial activity which are expected to be witnessed over the coming months. Financial position, according to the balance sheet of June 30, 1939, is very strong, current assets of $12,978,999, including cash of $3,270,861, being well in excess of current liabilities of $1,827,775. The strong trade position and optimistic outlook for sales should make for considerable improvement during the latter half of the current year. Dividend policy has in the past been liberal and will likely continue so. Retention of your present holdings is advised and the outlook is sufficiently optimistic to warrant moderate purchases for averaging.

EFFECTS OF WAR

War precipitates a gigantic reshuffling of industrial positions. In the upheaval many established companies fare badly and others come up strongly. No industry can escape—that much is certain. A cross-cut through a list of companies is interesting. Link Belt in the conveyor group should react favorably to the increase in heavy production. Wheat prices are almost certain to move ahead with other commodities, and Continental Baking will find it hard to maintain its profit margin. Construction activity may slow appreciably with consequent slackening in installations of house meters of which Weston Electric Instrument is a manufacturer. Tubize Chatillion and Brown Shoe make rayon and shoes, respectively, and both should do well. The likelihood of higher operating costs is a factor in McIntyre Porcupine's outlook. As petroleum demand increases, crude oil companies like Amerada Corp. show increasing profits. Utilities are slow to respond, but American Water Works, and American Light and Traction should operate at a higher rate.

Brown Shoe Co.

Am a little puzzled by the recent sluggish action of Brown Shoe in view of near-record production. Have profit margins been affected adversely since April? I bought 75 shares at 40. Despite considerable increases in business, the shares still hover around the 34-35 mark. What are its possibilities of going higher?—Mrs. D. C. McI., Washington, D. C.

Brown Shoe Co. is the third largest domestic producer of shoes and manufactures well known and widely distributed brands, most of which are in the medium- and lower-priced groups. Earnings for the six months ended in April of 1939 were equivalent to $1.14 per share, which compared with a deficit of 32 cents per share in the corresponding period of the preceding year. With consumer purchasing power, the principal determinant of profits, being at higher levels, it is expected that earnings for the fiscal year to end in October will be in the neighborhood of about $2.50 per share, which would represent a good increase over the 78 cents per share reported in the preceding fiscal year. Sales are expected to be somewhat higher, though costs have increased and consequently profit margins will be moderately lower. However, inventory losses are unlikely. The present dividend rate of 50 cents per share quarterly would seem to be secure and its continuation is expected. Finances of the company remain in very satisfactory shape, the balance sheet for April 30, 1939 disclosing current assets of $12,101,705 as against current liabilities of $916,355. At present levels, the issue returns a reasonable yield and while we do not feel that much can be looked for in the way of dynamic market appreciation, we feel that moderate advance is possible from these levels and we accordingly recommend retention of your holdings for this reason and also for the income which this issue affords.

American Light & Traction Co.

Should I continue to hold 125 shares of American Light & Traction common, bought at 18? Is there any earnings improvement in sight? I heard recently that an application before the SEC may submit one of this company's subsidiaries to a Public Utility Holding Company Act test. Can you throw further light on this subject?—C. L. H., Detroit, Mich.

American Light & Traction Co. functions as an intermediate holding company of the United Light & Power System. The company furnishes, through subsidiaries, various utility services to communities located in Michigan, Wisconsin and Texas. Electric sales are said to account for only 15% of revenues, the balance consisting mainly of natural gas, with coke, manufactured gas, transportation and ice, of lesser importance. Earnings record of the company over recent years has been exceptionally stable, probably due to the fact that residential output is heavy. Higher operating costs and taxes have been important restrictive factors during recent years, but growth possibilities in the natural gas division, particularly, appear satisfactory. An unbroken dividend record has been maintained for a number of years, the current rate being $1.20 annually. Based on present prices of around 14½ for the stock in the market, the income return is liberal. Moreover, it is not believed that the company will have any great difficulty in complying with the terms of the Public Utility Holding Company Act, since principal properties are closely related geographically. The exception to this would be the San Antonio, Texas, property, as well as the rather substantial stockholdings in the Detroit Edison Co. Ultimate disposition of these interests should not be too difficult, however, even if divorcement under the Utility Act becomes necessary. The company has already merged several operating units in Wisconsin, with a view to simplification of corporate set-up. Since an improvement in general business conditions should allow the company to record at least a moderate improvement in its earnings, the stock at these levels appears reasonably priced and retention is advised.

Continental Baking Corp.

How would you rate Continental Baking "A" at this time? Holding 250 shares bought at 21½. According to recent reports, operating economies have been effected and bread and cake sales are maintaining good volume. What are the prospects of the shares recovering to the level at which I purchased in view of existing conditions?—R. L. MacL., Portsmouth, N. H.

Latest earnings report of Continental Baking Corp. is for the twenty-six weeks ended July 1, 1939, when earnings of $1,823,805 were equivalent, after regular dividend requirements on the preferred stock, to 75 cents a share on the class "A" stock. This compared with $2,077,514 profit, or $1.62 a share on the class "A" stock for the like interval of the preceding year. Accumulated dividends on the 400,900 shares of the 8% cumulative preferred stock outstanding total $8.50 per share. It is accordingly apparent that dividends on the class "A" stock are not in near-term prospect. Moreover, the recent advance in wheat and sugar prices indicates that costs will be higher and profit margins narrower over the immediate future. Of favorable significance, however, is the trend toward higher consumer

purchasing power. If this continues, as appears likely, sales of the company's higher profit items such as cakes and other baking specialities should expand sharply. Moreover, if wheat and other ingredient prices stabilize, even at a higher level, the company should be able to adjust its selling prices accordingly. Thus, while the immediate outlook for the company's class "A" stock is rather mediocre, longer term market possibilities are believed to warrant full retention of your holdings at existing low quotations.

McIntyre Porcupine Mines, Ltd.

Would you advise retention of 100 shares of McIntyre Porcupine bought at 50? What is likely to be the effect on this stock in the event of general European war? Will you please tell me also, to what extent have recent property acquisitions such as Beaucort Gold Mines increased McIntyre's production. —G. W. N., Vancouver, B. C.

Because of the fact that prices and costs tend to rise under a war economy, the gold mining companies and some other organizations, the products of which sell at a more or less fixed level, are at a disadvantage under such circumstances. Moreover, there is the matter of taxation which also must be taken into account in appraising prospects for the Canadian gold stocks now. It is, of course, due largely to these uncertainties that McIntyre has declined so sharply in the market recently, despite the company's outstanding past earnings performance. If costs of doing business are not unduly increased and taxes are held within reasonable limits, both of which appear a logical expectation currently, then McIntyre Porcupine Mines, Ltd. should be able to maintain its earnings at a level which would assure continued dividends at the present $2 annual rate, with the possibility of moderate extras from time to time. Earnings report for the fiscal year ended March, 1939 was most satisfactory, with the equivalent of $4.65 a share on the capital stock comparing with $4.51 a share a year before. Report for the June quarter revealed the equivalent of $1.18 a share, or slightly higher than the $1.15 a share in the June quarter of 1938. The company has, as you know, acquired control of additional properties and these should ultimately work to the advantage of shareholders. In the meantime, the company's finances are in excellent shape and while the stock probably will continue colorless marketwise under present conditions, longer term prospects are believed to warrant full retention of holdings for the liberal dividend return obtaining. It is, of course, impossible to accurately forecast just how importantly recent acquisitions may contribute to future earnings. Nevertheless, estimated ore reserves at the last fiscal year end were reported to be higher than a year earlier and from all indications they are sufficient to assure many years of profitable operations.

Amerada Corp.

After buying 100 shares of Amerada at 75 in 1938, I averaged down early this year. I was influenced by announcements of new crude oil discoveries and bought another 100 at 60. In view of lower earnings, is the $2 dividend rate in danger? Also advise what you think of the price appreciation prospects under present conditions.—D. L. C., Baltimore, Md.

The Amerada Corp. differs from other major oil companies in that it is engaged almost exclusively in a single branch of the industry—the extraction of crude oil. The company has producing wells located on a million acres of land located mainly in Oklahoma, Texas, New Mexico, Kansas, Louisiana and California. The company has been highly successful in its exploration and drilling activities and proven reserves have increased sharply in each of the past nine years. On a per-share basis the company's proven reserves are reported to be larger than any other oil unit in the country. Capitalization of Amerada is simple, comprising 788,675 shares of common stock. In the full year 1938 earnings amounted to $2.07 per share against $3.04 earned in 1937. In the first quarter of the current year earnings amounted to 41 cents per share, as compared with 55 cents a share earned in the initial quarter of 1938. Inasmuch as the company follows a practice of deducting intangible drilling costs, geological expenses and lease rentals from current earnings, an accurate estimate of 1939 earning power is not possible, but it is likely that earnings for the full year will show a decline from the 1938 level. However, a strong financial position should allow for continuance of the annual $2 dividend. With the trend of oil prices higher, we believe the stock has attractive price appreciation possibilities and favor retention.

Weston Electrical Instrument Corp.

Do you think second half earnings of Weston Electrical common will equal or surpass the first half's 76c per share? Is the company's business from the construction field expanding? Also, can you tell me whether orders from utility companies have come up to earlier expectations? Should I continue to hold 150 shares bought at 25½?—Mrs. R. B. H., Tulsa, Okla.

The Weston Electrical Instrument Corp. is engaged in the manufacture of various instruments used in measurement and control of electricity, and supplies its products to the automobile, public utility, railroad and other industries. Its business is international in scope, products being distributed directly or through agencies both here and abroad. A mounting volume of business is being done with the aviation industry for Weston's various precision instruments, and this augurs well for its future. In the full year 1938 the company earned 71 cents per share of common stock, as against $2.10 in 1937 and $1.22 per share in 1936. Thus, it can be seen that the company's operations are closely geared to the general level of industrial activity in this country. The report for the first six months of the current year showed improvement over the similar period of a year earlier, with earnings of 76 cents per share on the common stock, compared with 20 cents per share in the first half of 1938. Utility and aviation business is reported holding at a higher level and full year earnings may reach the

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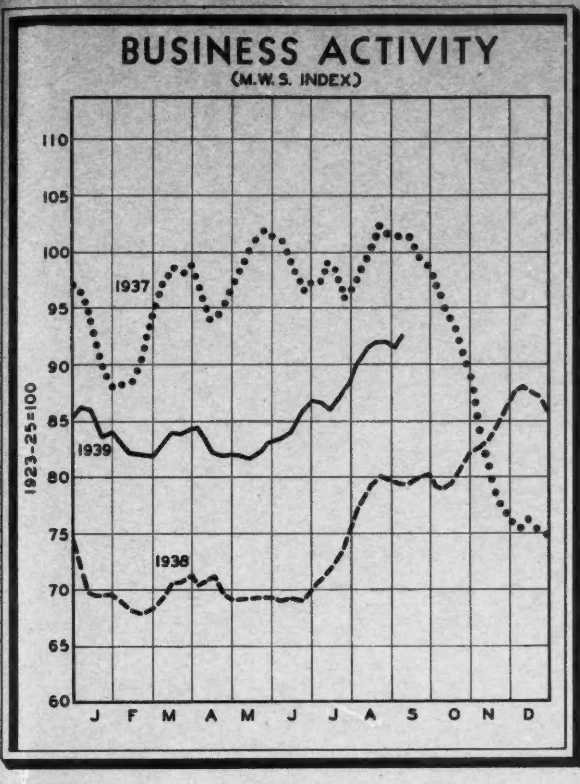

CONCLUSIONS

INDUSTRY—Domestic buying for inventory stocking boosts production.

TRADE—Long war would reduce unemployment and so lift retail sales.

COMMODITIES—Prices more stable. Sterling drop unsettling in some prices.

MONEY AND CREDIT—Government bond market heavily supported.

The Business Analyst

With production in a number of key industries stimulated by urgent domestic orders in anticipation of higher prices and delayed deliveries, the Nation's per capital volume of **business activity** has expanded sharply since our last issue to around 93% of the 1923-5 average—the best level since mid-October, 1937. For August, the average was 91.4 (106, Federal Reserve Basis), compared with 87.2 in July and 79.2 in August, 1938. Increases over last year were 15.4% for August, 17.4% for first two months of the current quarter, and 19.2% for first eight months of the current calendar year. The war-bred speculative demand for goods and commodities will bring spectacular increases in practically all components of our Business Index during the next few weeks, which may well lift the level of general Business Activity to 100 (per capita basis) by the end of September, and bring the third quarter's average up to 18.5% ahead of the like period last year. Consequently, as prices have recently been rising faster than costs, third quarter earnings, by and large, will compare very favorably with those reported for the second quarter and with profits earned during the third quarter of 1938.

* * *

Thus far, the expected avalanche of foreign

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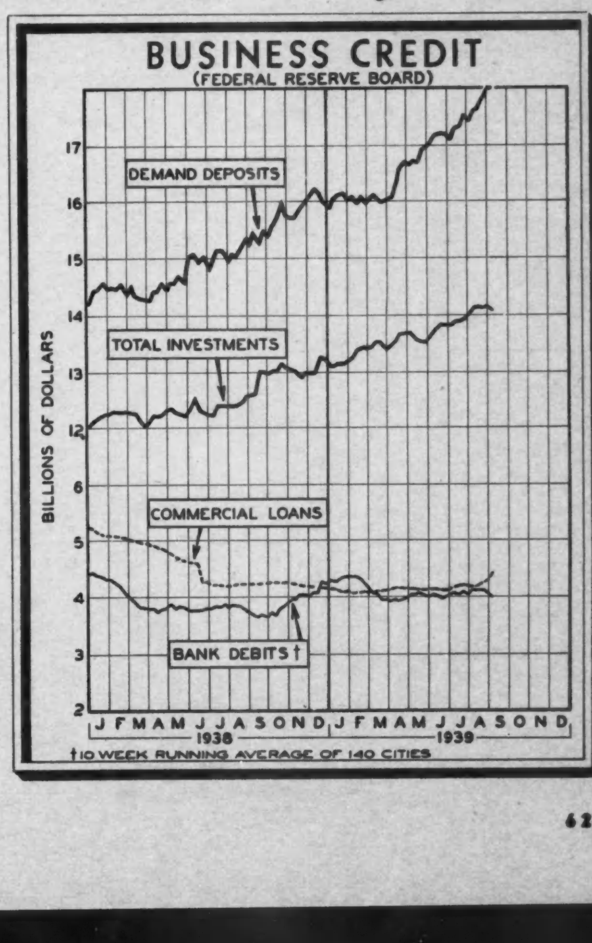


Business and Industry

	Date	Latest Month	Previous Month	Last Year
INDUSTRIAL PRODUCTION (a)	Aug.	102	101	88
INDEX OF PRODUCTION AND TRADE (b)	July	85	84	75
Production	July	82	81	71
Durable Goods	July	64	63	45
Non-durable Goods	July	94	92	87
Primary Distribution	July	79	78	72
Distribution to Consumers	July	94	94	85
Miscellaneous Services	July	80	81	77
WHOLESALE PRICES (h)	Aug.	74.9(pl)	75.4	78.1
INVENTORIES (n. i. c. b.)				
Raw Materials	July	94.0	94.6	111.6
Semi-Finished Goods	July	111.1	112.4	118.1
Finished Goods	July	110.3	109.5	112.6
COST OF LIVING				
All Items	July	84.9	84.7	86.5
Food	July	78.1	77.9	81.7
Housing	July	86.3	86.0	86.6
Clothing	July	71.9	72.0	73.5
Fuel and Light	July	83.8	83.4	84.1
Sundries	July	96.9	96.6	97.5
Purchasing value of dollar	July	117.8	118.1	115.6
NATIONAL INCOME (cm)†	July	$5,494	$5,713	$5,304
CASH FARM INCOME†				
Farm Marketing	July	$534	$501	$609
Including Gov't Payments	July	570	552	643
Total, First 7 Months	July	3,951	......	3,984
Prices Received by Farmers (ee)	July	89	89	95
Prices Paid by Farmers (ee)	July	120	121	123
Ratio: Prices Received to Prices Paid (ee)	July	74	74	77
FACTORY EMPLOYMENT (f)				
Durable Goods	July	82.1	83.9	70.3
Non-durable Goods	July	98.5	97.0	92.9
FACTORY PAYROLLS (f) (not adjusted)	July	83.8	85.9	70.6
RETAIL TRADE				
Department Store Sales (f)	Aug.	89	86	83
Chain Store Sales (g)	Aug.	113.0	113.0	106.4
Variety Store Sales (g)	Aug.	116	119	109.4
Rural Retail Sales (j)	July	124.8	131.7	116.2
Retail Prices (s) as of	Aug. 1	89.3	89.1	89.0
FOREIGN TRADE				
Merchandise Exports†	July	229.6	236.1	227.5
Cumulative year's total† to	July	1,645.5	......	1,818.3
Merchandise Imports†	July	168.9	178.9	140.8
Cumulative year's total† to	July	1,263.4	......	1,101.8
RAILROAD EARNINGS				
Total Operating Revenues★	1st 7 mos.	$2,136,562	......	$1,935,657
Total Operating Expenditures★	1st 7 mos.	1,642,706	......	1,533,761
Taxes★	1st 7 mos.	201,995	......	196,904
Net Rwy. Operating Income★	1st 7 mos.	214,763	......	109,617
Operating Ratio %	1st 7 mos.	76.89	......	80.27
Rate of Return %	1st 7 mos.	1.66	......	0.85
BUILDING Contract Awards (k)	Aug.	$312.3	$299.9	$313.1
F. H. A. Mortgages				
Selected for Appraisal†	Aug.	98.5	84.5	104.2
Accepted for Insurance†	Aug.	62.3	52.6	67.9
Premium Paying†	Aug.	65.1	51.2	43.8
Building Permits (c)				
214 Cities†	Aug.	$91.8	$86.4	$73.4
New York City†	Aug.	26.0	16.8	27.6
Total, U. S.†	Aug.	117.8	102.8	101.0
Engineering Contracts (En)†	Aug.	$231.8	$181.5	$236.3

PRESENT POSITION AND OUTLOOK

(Continued from page 629)

orders has been confined largely to inquiries; so that the spectacular upsurge in **commodity prices** has no basis in any physical shortage of supply. Domestic consumers are building up inventories, and producers are rationing supplies on a rather dubious hunch that the present war will lead to the same inflation that sprang from the world war of 1914-18. More sober heads are warning, however, that conditions now are very different in a number of aspects, especially as to the relation between supply and demand in the case of various staple commodities. Government efforts to curb profiteering, diplomatic surprises, "peace scares," war incidents, and ship shortages will make it peculiarly hazardous to speculate in inventories. If we are to escape post-war deflation, it is essential now to avoid needless inflation of inventories, plant capacity and bank credit.

* * *

Factory employment in July was 10% above last year; with **durable goods** reporting an increase of 17%, and **non-durable goods** up 6%. Unemployed in July numbered 9,860,000—3.5% greater than in June, owing mainly to a decline in farm workers. Rising business activity from now on will provide long needed work for millions, and reduce the burden of relief expenses.

* * *

Department store sales for the week ended September 2 were 3% above last year, compared with a four-week's gain of 4%. Inventories on August 1 were 2.4% below last year. Merchants generally hold to the belief that, although prices in many lines may rise substantially over the next month or two, the advance will not hold; since there is no real shortage of supplies, but merely an hysterical wave of hoarding without increase in ultimate consumption. Unless war orders come into the market in quantity over the next few months, inventory speculators may be caught holding the bag and cease buying. Should this occur, a substantial price reaction would be in order.

* * *

Heavy movement of goods from producers into the hands of speculators in inventories has boosted **carloadings** to 16% above last year. Expanding domestic industrial activity, heavier exports of goods, and a rising demand for coal and lumber from nations hitherto supplied by England and Canada, are expected to swell freight traffic and earnings of the **railroads,** and so help to revive the equipment market.

* * *

Except for dealers and producers who supply material needed by belligerents, the war is not expected to be of much help to the **building industry.** Greater employment and higher wages would increase the demand for housing accommodations, and war orders may necessitate plant expansion; but construction costs would climb during a long war.

	Date	Latest Month	Previous Month	Last Year
STEEL				
Ingot Production in tons★	Aug.	3,764	3,163	2,537
Pig Iron Production in tons★	Aug.	2,660	2,356	1,494
Shipments, U. S. Steel in tons★	Aug.	804	676	559
AUTOMOBILES				
Production				
Factory Sales	July	209,343	309,720	141,443
Total 1st 7 Months	1939	2,171,256	......	1,344,786
Retail Sales				
Passenger Cars, U. S. (p)	1st 7 mos.	1,638,410	......	1,123,774
Trucks, U. S. (p)	1st 7 mos.	293,573	......	235,682
PAPER (Newsprint)				
Production, U. S. & Canada★ (tons)	Aug.	317.0	302.6	287.7
Shipments, U. S. & Canada★ (tons)	Aug.	303.4	297.1	270.7
Mill Stocks, U. S. & Canada★ (tons)	Aug.	232.6	219.1	218.9
LIQUOR (Whisky)				
Production, Gals.★	July	3,711	5,782	3,915
Withdrawn, Gals.★	July	4,343	4,890	4,339
Stocks, Gals.★	July	477,149	478,875	470,400
GENERAL				
Machine Tool Orders (n)	Aug.	206.5	230.9	120.9
Railway Equipment Orders (Ry)				
Locomotive	Aug.	5	4	18
Freight Cars	Aug.	315	None	303
Passenger Cars	Aug.	None	39	None
Cigarette Production†	July	14,260	16,595	13,784
Bituminous Coal Production★ (tons)	Aug.	34,470(pl)	29,135	28,665
Boot and Shoe Production Prs.★	July	33,489(pl)	31,776	30,742
Portland Cement Shipments★	July	11,755	12,715	10,164
Paperboard, new orders (st)	July	382,682	383,371	322,948

PRESENT POSITION AND OUTLOOK

All makes of **automobiles** are now in production on 1940 models, and assemblies will mount rapidly until, perhaps within six weeks, the 100,000-a-week pace is reached. Most producers have contracted far ahead for material, at low prices, and savings are being passed along to consumers in the form of lower prices. Foreign deliveries will be curtailed sharply for a while; but expanding business activity will enlarge the domestic demand.

* * *

Whisky production in July was 10% above last year, with month-end stocks showing an increase of 1.5%. Withdrawals were up 3%. A war boom would boost domestic consumption and help profits; though prohibition might again be agitated should this country be drawn into the conflict. July production of boots and **shoes** was 9% above last year, compared with an eight-months' increase of 12%.

* * *

North American **newsprint** production during August was 15.6% above last year, against a nine-months' gain of only 10.7%. Domestic consumption will increase considerably for the period of the war, and American mills may be called upon to supply part of the pulp and newsprint tonnage hitherto obtained from Sweden.

WEEKLY INDICATORS

	Date	Latest Week	Previous Week	Year Ago
M. W. S. INDEX OF BUSINESS ACTIVITY 1923-25—100	Sept. 9	92.8	91.5	79.6
ELECTRIC POWER OUTPUT				
K.W.H.†	Sept. 9	2,290	2,357	2,048
TRANSPORTATION				
Carloadings, total	Sept. 9	667,409	721,748	568,707
Grain	Sept. 9	36,297	40,200	30,517
Coal	Sept. 9	124,600	132,635	99,800
Forest Products	Sept. 9	30,003	33,232	26,619
Manufacturing & Miscellaneous	Sept. 9	266,819	284,733	232,768
L. C. L. Mdse	Sept. 9	135,770	156,865	134,392
STEEL PRICES				
Pig Iron $ per ton (m)	Sept. 12	20.61	20.61	19.61
Scrap $ per ton (m)	Sept. 12	16.75	15.62	14.42
Finished c per lb. (m)	Sept. 12	2.236	2.236	2.300
STEEL OPERATIONS				
% of Capacity week ended (m)	Sept. 16	71.0	59.0	45.5
CAPITAL GOODS ACTIVITY				
(m) week ended	Sept. 9	71.5	70.2	56.9
PETROLEUM				
Average Daily Production bbls.★	Sept. 9	3,229	2,283	3,207
Crude Runs to Stills Avge. bbls.★	Sept. 9	3,380	3,375	3,233
Total Gasoline Stocks bbls.★	Sept. 9	72,244	73,194	70,399
Gas Fuel Oil Stocks, bbls.★	Sept. 9	110,856	111,112	118,714
Crude—Mid-Cont. $ per bbl	Sept. 16	1.02	1.02	1.22
Crude—Pennsylvania $ per bbl	Sept. 16	1.48	1.48	1.28
Gasoline—Refinery $ per gal	Sept. 16	.06½	.06⅛	.06¼

PRESENT POSITION AND OUTLOOK

With the resumption of full time petroleum production and under the impetus of a sharp increase in industrial production, **electric power production** has expanded to a level about 12% above last year. While the rise in prices consequent upon a long war would raise costs to some extent, increase in output consequent upon greater industrial activity would more than compensate. Many **utilities** reported highly satisfactory gains in earnings during the first three years of the world war, from 1914 to 1917.

* * *

War under modern conditions consumes far more **steel** than during the world war and, with mills of the belligerants overtaxed to meet their own requirements, it is quite certain that a long war would eventually tax production facilities of this industry in the U. S. to meet domestic and export demands. Inquiries from Europe and South America are already numerous and specific; though few foreign orders have been placed as yet. Prices and profits would increase substantially.

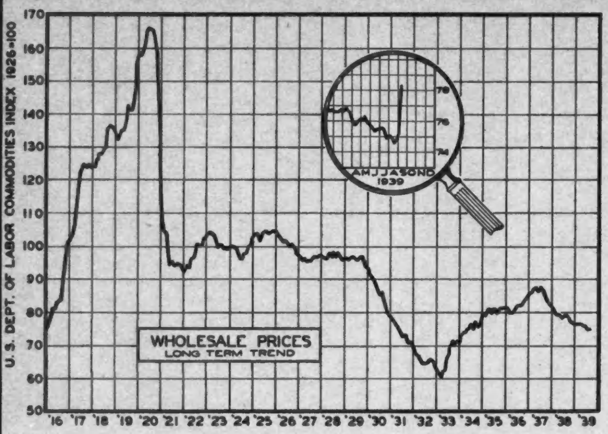
* * *

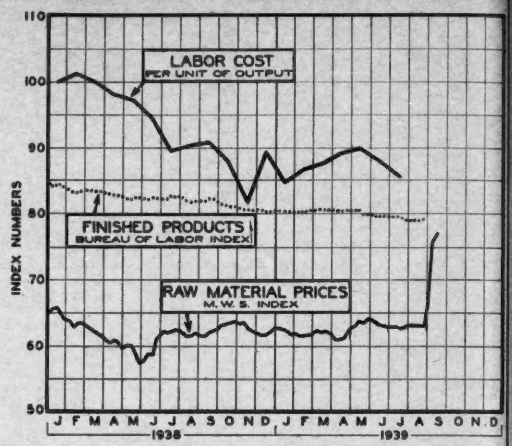
A long war would tax our facilities to supply **motor fuel** for airplanes; but export demand for other **petroleum** products may fall short of present rosy expectations, although they promise to be stimulated.

†—Millions. ★—Thousands. (a)—Federal Reserve 1923-25—100. (b)—Federal Reserve Bank of N. Y. 100%—estimated long term trend. (c)—Dun & Bradstreets. (cm)—Dept. of Commerce estimates of income paid out. (d)—Nat. Ind. Conf. Bd. 1923—100. (e)—Dept. of Agric., 1924-29—100. (ee)—Dept. of Agric., 1909-14—100. (f)—1923-25—100. (g)—Chain Store Age 1929-31—100. (h)—U.S.B.L.S. 1926—100. (j)—Adjusted—1929-31—100. (k)—F. W. Dodge Corp. (m)—Iron Age. (n)—1926—100. (pl)—Preliminary. (s)—Fairchild Index, Dec., 1930—100. (En)—Engineering News Record. (Ry)—Railway Age. (n. i. c. b.)—Nat. In. Conf. Bd. 1936—100. (st)—Short tons.

Trend of Commodities

The markets for major commodities over the past fortnight have experienced some of the most hectic days in their history. Prices for the most part rose spectacularly yet there were days in which prices both rose and fell the full extent of trading limits. On occasions it appeared that the basic factors of supply and demand had lost all significance, to be superceded by the conviction that the outbreak of war would solve all problems of burdensome surpluses in short order. The sharp decline in sterling added further to the confusion and had a particularly unsettling effect upon prices of rubber, silk and tin. There has as yet been no evidence of large scale buying by belligerents, but while speculators have been active there has undoubtedly been considerable buying on the part of domestic industrial interests. The war caught most purchasing agents with short inventories, a deficiency which many of them hastened to correct when war started.





Changes in Major Commodity Price Groups for the fortnight Ended Sept. 9, 1939

Farm Products	68.1	up 7.0	Metals	94.6	up 1.1
Foods	74.5	up 7.8	Building Material	90.1	up 0.4
Hides and Leather	96.3	up 3.7	Chemical	75.9	up 1.7
Textiles	68.4	up 1.0	Housefurnishings	87.0	no change
Fuel and Lighting	74.0	up 0.8	Miscellaneous	76.1	up 3.0

	Date	Latest Wk. or Mo.	Previous Wk. or Mo.	Year Ago
COTTON				
Price cents per pound, closing				
October	Sept. 16	9.10	9.02	7.83
December	Sept. 16	8.85	8.95	7.77
Spot	Sept. 16	9.20	9.35	7.95
(In bales 000's)				
Visible Supply, World	Sept. 15	(X)	6,662	8,018
Takings, World, wk. end	Sept. 15	(X)	318	312
Total Takings, season Aug. 1 to	Sept. 15	(X)	1,671	1,798
Consumption, U. S.	Aug.	628	521	559
Exports, wk. end	Sept. 15	137	48	55
Total Exports, season Aug. 1 to	Sept. 15	471	334	407
Government Crop Est.	Sept. 1	12,380	11,412	11,943(ac)
Active Spindles (000's)	July	21,915	21,975	21,915
WHEAT				
Price cents per bu. Chi. closing				
September	Sept. 16	85¾	82⅜	65¼
December	Sept. 16	86¾	82½	65⅝
Exports bu. (000's) since July 1 to	Sept. 9	23,355	20,570	31,537
Exports bu. (000's) wk. end	Sept. 9	2,785	2,030	2,253
Visible Supply bu. (000's) as of	Sept. 9	149,503	149,913	123,241
Gov't Crop Est. bu. (000's)	Sept. 1	736,115	731,432	930,801(ac)
CORN				
Price cents per bu. Chi. closing				
September	Sept. 16	58	56	52⅞
December	Sept. 16	57¼	56	51
Exports bu. (000's) since July 1 to	Sept. 9	880	751	39,785
Visible Supply bu. (000's) as of	Sept. 9	10,260	12,753	10,079
Gov't Crop Est. bu. (000's)	Sept. 1	2,523,092	2,459,888	2,542,238(ac)

PRESENT POSITION AND OUTLOOK

Cotton. Prices were reactionary at the end of the second week of war. Cotton is not a war commodity. In the present circumstances, however, the war may help domestic prices. For one thing American growers are not faced with the sudden dimunition of markets that hit them in 1914. The German market, for example, was substantially less in 1939 than in 1914. Supplies of American cotton abroad are low and in wartime American cotton is much more accessible. Moreover, if the war stimulates American business, demand for finished cotton goods will expand substantially.

* * *

Wheat. Notwithstanding the fact that wheat supplies at the present time are much larger than they were in 1914, prices in two weeks have risen considerably more than they did at the outbreak of the World War. Speculation played a big part, traders apparently remembering 1914 and lost no time in getting aboard the band wagon. But buyers were many and sellers scarce, trading limits were hit daily, and only a small portion of orders were executed. There is plenty of wheat but with the speculative elements in the saddle, anything can happen.

* * *

Corn. Despite a potential corn crop this year of nearly three billion bushels, there will be no corn marketing quota referendum. The war has eliminated this problem. At recent highs corn was more than 22 cents a bushel above July lows.

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	Date	Latest Wk. or Mo.	Previous Wk. or Mo.	Year Ago
COPPER				
Price cents per lb.				
Domestic	Sept. 16	12.00	12.00	10.25
Export f. a. s. N. Y.	Sept. 16	11½-12	12.00	10.35-45
Refined Prod., Domestic (tons)	July	57,339	61,719	35,596
Refined Del., Domestic (tons)	July	59,681	53,573	48,071
Refined Stocks, Domestic (tons)	July 31	316,543	335,017	339,997
Refined Prod., World (tons)	July	158,236	173,205	139,483
Refined Del., World (tons)	July	181,487	180,433	177,580
Refined Stocks, World (tons)	July 31	490,419	513,670	523,196
TIN				
Price cents per lb., N. Y.	Sept. 16	65.00	66.00	43.40
Tin Plate, price $ per box	.....	5.00	5.00	5.25
World Stocks† as of	July 31	29,625	30,055	39,137
U. S. Deliveries†	July	5,275	4,925	3,775
U. S. Visible Supply† as of	July 31	5,339	4,388	4,071
LEAD				
Price cents per lb., N. Y.	Sept. 16	5.50	5.50	5.00
U. S. Production (tons)	July	37,021	39,068	31,488
U. S. Shipments (tons)	July	42,636	38,710	40,409
Stocks (tons) U. S., as of	July 31	124,017	129,636	155,631
ZINC				
Price cents per lb., St. Louis	Sept. 16	6.25	6.00	4.85
U. S. Production (tons)	Aug.	40,960	39,669	32,296
U. S. Shipments (tons)	Aug.	49,928	43,128	36,507
Stocks (tons) U. S., as of	Aug. 31	122,814	131,782	141,997
SILK				
Price $ per lb. Japan xx crack	Sept. 16	3.15½	2.87½	1.76½
Mill Dels. U. S. (bales), July 1 to	Aug. 31	59,229	......	71,097
Visible Stocks N. Y. (bales) as of	Aug. 31	25,060	25,748	39,747
RAYON (Yarn)				
Price cents per lb	Sept. 16	51.0	51.0	51.0
Consumption (a)	Aug.	31.3	32.9	36.7
Stocks as of (a)	Aug.	18.4	24.9	41.1
WOOL				
Price $ per lb. tops, N. Y.	Sept. 16	1.25	1.05	0.80
HIDES				
Price cents per lb. No. 1 Packer	Sept. 16	15.0	14.0	11.0
Visible Stocks (000's) (b) as of	July 31	13,027	12,976	13,924
No. of Mos. Supply as of	July 31	7.8	7.5	9.1
RUBBER				
Price cents per lb	Sept. 16	22.25	23.00	16.08
Imports, U. S.†	Aug.	38,045	36,739	31,099
Consumption, U. S.†	Aug.	50,481	43,880	40,552
Stocks U. S. as of	Aug.	161,358	174,240	273,841
Tire Production (000's)	July	4,510	4,870	3,287
Tire Shipments (000's)	July	5,056	5,750	3,870
Tire Inventory (000's) as of	July	8,300	8,909	8,041
COCOA				
Price cents per lb. Dec	Sept. 16	5.50	6.18	5.06
Arrivals (000's bags)	Aug.	377	232	612
Warehouse Stocks (000's lbs)	Sept. 15	1305	1,337	900
COFFEE				
Price cents per lb. (c)	Sept. 16	7¾-8	7.50	8.00
Imports, July 1 to (000's bags)	Aug. 31	1,868	912	2,201
U. S. Visible Supply (000's bags)	Sept. 1	1,501	1,422	1,404
SUGAR				
Price cents per lb.				
Duty free delivered	Sept. 16	3.69	3.80	2.92
Refined (Immediate Shipment)	Sept. 16	5.75	5.75	4.60
U. S. Deliveries (000's)*	1st 7 mos	3,586	......	3,552
U. S. Stocks (000's)* as of (rr)	July 31	1,036	852	910

PRESENT POSITION AND OUTLOOK

Copper. However arbitrary President Roosevelt's statement to the effect that 12½-cent copper was amply profitable for most producers, it did have a stabilizing effect upon the market and copper is still within a half cent of the "limit." War will stimulate the demand for fabricated copper; exports of refined copper, for the present at least, may not attain a war basis. (See Page 604).

* * *

Tin. The drop in the pound sterling coupled with the lack of knowledge as to what action England would take to assure an adequate supply of tin caused buyers to withdraw temporarily. Quotas are expected to be raised to 80 per cent. A month ago they were 45 per cent.

* * *

Lead. Assurance by leading producers that supplies were ample has had the effect of turning the lead market into a more orderly proposition. England is self sufficient as regards lead producing and refining resources. Higher prices would encourage Mexican and South American imports.

* * *

Zinc. The war has enabled domestic producers to raise prices and restore a reasonable margin of profit without fear of imports. Sales have been heavy, with producers withdrawing from the market. Higher prices will bring in marginal production and further price increases may be deferred.

* * *

Wool. The leading domestic producer has announced an advance of 25 cents a yard in spring prices of worsteds, the largest increase in the past several years. Raw wool quotations have risen 30 per cent since the outbreak of the war.

* * *

Silk. Spot and future prices attained a nine-year high. Later, however, with the Japanese yen still tied to sterling, markets were subject to the sharp drop in sterling. Silk looks higher to the detriment of its industrial position.

* * *

Hides. Prices have risen and can be justified on statistical position of hides, regardless of war. Supplies are only slightly above the lowest level in forty years. Boots and shoe consumption in July was 10 per cent ahead of last year.

* * *

Rubber. Quotas for the fourth quarter have been raised to 70 per cent. Domestic trade interests, however, had anticipated suspension of all quotas. Supplies in the United States are adequate and no interruption in shipments is feared. Nevertheless, prices look like a one-way proposition—up.

* * *

Cocoa. To cocoa goes the distinction of scoring the greatest percentage price gain between Aug. 31, and Sept. 9. Spot prices rose nearly 50 per cent. A prolonged war will boom cocoa.

* * *

Sugar. Prices dropped on announcement of temporary suspension of domestic quotas. Markets are confused, prices are up but higher or even sustained prices depend almost entirely on the prospect of a protracted war. Sugar looks like a poor short sale.

(a)—Million Pounds. (ac)—Actual. (pl)—Preliminary. (c)—Santos No. 4 N. Y. †—Long tons. *—Short tons. (rr)—Raw and refined. (X)—No foreign statistics allowed to be sent from abroad because of war conditions.

Money and Banking

	Date	Latest Week	Previous Week	Year Ago
INTEREST RATES				
Time Money (60-90 days)	Sept. 16	1¼%	1¼%	1¼%
Prime Commercial Paper	Sept. 16	⅝-1%	½%	¾%
Call Money	Sept. 16	1%	1%	1%
Re-discount Rate, N. Y.	Sept. 16	1%	1%	1%
CREDIT (millions of $)				
Bank Clearings (outside N. Y.)	Sept. 2	2,383	2,225	2,195
Cumulative year's total to	Sept. 2	83,508	......	78,310
Bank Clearings, N. Y.	Sept. 2	3,737	2,841	3,079
Cumulative year's total to	Sept. 2	109,919	......	121,970
F. R. Member Banks				
Loans and Investments	Sept. 6	22,389	22,442	20,842
Commercial, Agr., Ind. Loans	Sept. 6	4,075	3,996	3,888
Brokers Loans	Sept. 6	640	608	670
Invest. in U. S. Gov'ts	Sept. 6	8,512	8,565	6,792
Invest. in Gov't Gtd. Securities	Sept. 6	2,219	2,286	1,655
Other Securities	Sept. 6	3,353	3,382	3,154
Demand Deposits	Sept. 6	18,040	18,096	15,267
Time Deposits	Sept. 6	5,235	5,247	5,217
New York City Member Banks				
Total Loans and Invest.	Sept. 13	8,361	8,341	7,773
Comm'l., Ind. and Agr. Loans	Sept. 13	1,615	1,573	1,465
Brokers Loans	Sept. 13	430	499	585
Invest. in U. S. Gov'ts	Sept. 13	3,191	3,147	2,869
Invest. in Gov't Gtd. Securities	Sept. 13	1,098	1,093	794
Other Securities	Sept. 13	1,214	1,209	1,085
Demand Deposits	Sept. 13	8,195	8,151	6,474
Time Deposits	Sept. 13	647	646	684
Federal Reserve Banks				
Member Bank Reserve Balance	Sept. 13	11,526	11,141	8,425
Money in Circulation	Sept. 13	7,235	7,261	6,550
Gold Stock	Sept. 13	16,808	16,726	13,421
Treasury Currency	Sept. 13	2,911	2,908	2,733
Treasury Cash	Sept. 13	2,227	2,264	2,759
Excess Reserves	Sept. 13	5,270	4,970	3,130

		Latest Month	Last Month	Year Ago
NEW FINANCING (millions of $)				
Corporate	Aug.	340.7	326.0	338.2
New Capital	Aug.	25.4	49.5	127.0
Refunding	Aug.	315.3	176.5	211.2

COMMENT

Seeking to ease the strain of heavy selling in the government bond market, Federal Reserve banks in the week ended Sept. 6, purchased $168,223,000 of government securities and in the week ended Sept. 13, acquired $229,305,000. In three weeks supporting operations have resulted in an expansion of $400,978,000 in government bond holdings by Federal Reserve banks. In recent sessions, however, Reserve buying has been in reduced volume. Much of the selling of government bonds has originated from out-of-town sources. New York banks in the past two weeks bought $17,000,000 in government bonds.

* * *

The heavy purchases of Government securities by Federal Reserve banks were the principal factor in adding $300,000,000 to excess reserves, bringing the total up to $5,270,000,000, a new all-time high. The banking system now has sufficient reserves to permit an increase of $30,000,000,000 in bank credit, without using the Federal Reserve Banks' rediscounting facilities. In the meantime, however, some of these reserves will probably return to government bonds.

* * *

New York City member banks in the latest week reported an increase of $42,000,000 in loans to industry, commerce and agriculture, raising the total of such loans to $1,615,000,000, the highest figure since April 20, 1938. The rise in commercial borrowing reflects not only the normal seasonal influences at work at this time of year but marked expansion in industrial inventories which has followed in the wake of the war and higher commodity prices. Further sizable gains will probably be reported in ensuing weeks.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEX

No. of Issues (1925 Close—100)	1939 Indexes High	Low	Sept. 9	Sept. 16
316 COMBINED AVERAGE	73.1	50.7	68.4	70.5
5 Agricultural Implements	119.4	81.4	111.9	115.0
6 Amusements	43.2	26.8	26.9	30.1
15 Automobile Accessories	92.3	55.2	80.7	82.0
12 Automobiles	12.8	8.1	11.1	11.7
11 Aviation (1927 Cl.—100)	182.7	128.2	163.6	169.2
3 Baking (1926 Cl.—100)	15.4	11.5	12.2	12.1
3 Business Machines	183.9	114.0	114.7	134.6
9 Chemicals	182.1	123.7	180.8	182.1 H
20 Construction	47.5	27.7	33.5	36.1
5 Containers	242.6	165.0	224.9	223.2
9 Copper & Brass	125.6	71.2	125.6h	116.8
2 Dairy Products	32.1	23.6	29.0	30.2
8 Department Stores	23.9	16.5	20.1	21.3
7 Drugs & Toilet Articles	53.5	40.4	48.6	46.3
2 Finance Companies	312.0	219.4	236.9	242.1
7 Food Brands	103.3	69.1	98.3	99.8
3 Food Stores	48.4	33.3	40.1	41.2
4 Furniture & Floor Covering	72.1	47.1	51.7	56.0
3 Gold Mining	1301.2	904.7	936.2	904.7L
6 Investment Trusts	28.1	19.2	27.3	27.7
4 Liquor (1932 Cl.—100)	193.1	132.0	147.5	156.0
9 Machinery	129.0	83.3	114.2	120.0

No. of Issues (1925 Close—100)	1939 Indexes High	Low	Sept. 9	Sept. 16
316 COMBINED AVERAGE	73.1	50.7	68.4	70.5
2 Mail Order	90.5	69.2	87.0	87.8
4 Meat Packing	65.4	41.5	65.4H	63.4
14 Metals, (non-Ferrous)	192.9	122.0	192.9h	185.0
2 Paper	13.5	7.5	12.6	12.8
24 Petroleum	101.0	74.3	101.0h	98.6
18 Public Utilities	62.6	44.9	54.3	57.7
4 Radio (1927 Cl.—100)	17.0	10.0	11.8	12.3
9 Railroad Equipment	61.6	33.7	51.6	55.3
22 Railroads	18.1	10.9	15.6	17.8
2 Realty	7.9	2.6	4.2	4.5
2 Shipbuilding	82.7	45.1	80.6	77.2
13 Steel & Iron	104.2	60.4	99.6	104.2h
2 Sugar	39.0	13.3	39.0H	35.7
2 Sulphur	166.8	113.0	164.2	166.8h
3 Telephone & Telegraph	53.2	40.3	47.2	53.2h
4 Textiles	59.6	27.4	53.9	59.6H
4 Tires & Rubber	20.0	13.0	18.0	17.8
4 Tobacco	86.5	76.2	79.7	79.4
4 Traction	39.1	21.9	28.6	32.8
4 Variety Stores	244.4	189.3	212.5	215.7
20 Unclassified (1938 Cl.—100)	105.4	73.1	100.9	105.4h

H—New HIGH since 1937. h—New HIGH this year. L—New LOW since 1937.

Uncovering Special Situations

(*Continued from page* 615)

and methods are kept up to date. Dividend policy of the company has been liberal—disbursements increasing in line with the steady expansion of the company's business. In 1937 $4 was paid, in 1938 $5, and thus far this year $4.25 has been declared. Indications are that the 1938 figure will at least be equalled if not increased.

At the present price of around 61 the stock of Chicago Flexible Shaft sells on a favorable price-earnings ratio. The company has shown unusual ability to grow and no resistance point to this expansion is at all visible. In light of the good general business prospects, it would appear that the stock offers attractive features for return on investment and capital appreciation over a longer term.

As the Trader Sees Today's Market

(*Continued from page* 617)

The decline from November, 1938, to last April amounted to 40% in the "low" index, 29% in the "high," again creating a substantial spread between the two. Then after moving irregularly upward the market reacted in mid-August for a final test of the earlier lows. On this reaction the "high" index held 11.4% above the April bottom, while the "low" stopped only 6.8% above that point. The spread in favor of the investment issues set a new high for the whole period charted. According to the reasoning used in this discussion, the market was revealing an uninterrupted demand for better grade stocks on a relative basis, regardless of its discouraging appearance.

The broad contrast between the situation last month and that of early 1937 is probably the type of indication which should be most strongly stressed in the use of this tool. Attempts to use it for more precise work naturally increase the hazards. However, it has already been noted that many outstandingly large or sudden increases in the advantage of the "high" index over the "low" have signaled immediate rallies, even in bear markets. In other words, resistance to decline relatively better in the "high" index than in the other is bullish even for the short term. Conversely, a rapid rise in the "low" index in relation to the "high" suggests caution in trading. To proceed one step farther, it might be postulated that gains in the "low" over the "high" are particularly dangerous when they occur in an *old* bull market, when the final stages might normally be expected to lie somewhere in the near future.

Traders who attempt to develop a high-low index for their own use will run into some difficulties. The chief one is the amount of work involved in computing sufficiently broad indexes. Short-cuts such as decreasing the lists to two or three dozen issues open them to the danger of special situations which sometimes permit a handful of stocks to distort the picture. It is also important in both lists to avoid the extremely inactive issues and the penny stocks. The ranges of the two indexes used here naturally fluctuate, but usually run somewhere between 1 and 10 for the "low" index and above 25 for the "high." Dividing the complete list of 316 active common stocks into two large groups without leaving any no-man's-land between them would not change the results to any appreciable extent. Despite the obstacles in the way of getting at the message conveyed by a high-low index, traders will find their time well spent in constructing one. It will help remove much of the dependence upon hearsay for an estimate of market quality.

The Balance of Financial Power Comes to the United States

(*Continued from page* 601)

barter as Germany has done. With part of this we can agree. France and England probably will lose their remaining stocks of gold (though Rand production should bolster the latter) and it is quite possible, too, that they will then resort to silver and/or to barter, for a while at least. But that is no indication that gold will be demonetized or lose any part of its value. Admittedly, a far

broader distribution of the world's gold stocks than will exist at the end of the war is desirable in the interests of world trade, but that is far from saying that the country that holds the bulk of it is placed at any disadvantage thereby.

The fact of the matter is that while redistribution of gold will probably loom as one of the foremost problems of economic reconstruction, we will be the ones who fix the terms of the redistribution. We will be in a position, if we wish, to exact a return to the principles of free trade and a world political economy better designed to preserve peace than that of the past generation. The problem will be a difficult one but it will be this country's responsibility to solve it for no other will be in a position to.

The Farm Equipments in War

(*Continued from page* 613)

It is quite possible, however, that this precedent may not hold true in the present circumstances. For one thing, the tractor which has become the most important single item of farm equipment, might well be adopted on a large scale to replace horses for hauling artillery and other war equipment. Tractor sales in 1938 accounted for some 40% of all farm equipment sales and in 1937 the proportion represented by tractors was 46.3%. The development of low cost all-purpose tractors has greatly broadened the potential market for this type of equipment by making it possible for the small farm operator to employ it effectively and economically. Whereas the domestic market for most other types of farm equipment is largely dependent upon replacement demand tractor sales are capable of considerable potential growth. Competition for tractor business is keen, with all of the leading equipment manufacturers represented and to which the Ford Motor Co. was added this year. It is within the realm of possibility, however, that combined war and farm demand for tractors will test the productive capacity of manufacturers.

From the standpoint of potential war orders, International Harvester might be favored by its position as the third largest manufacturer of trucks and commercial vehicles. The company also ranks among the more important manufacturers of Diesel engines. International Harvester, however, is the only one of the farm equipment companies with large foreign plant investments. The company has plants in Germany, France and Sweden. Allis-Chalmers, which only in recent years has become an important factor in the farm equipment industry and largely through the manufacture of low cost tractors and combines, during the World War converted its West Allis plant to the manufacture of shells, gun carriages, heavy artillery and naval power plants, may again find it advantageous to manufacture munitions.

In the main, however, the farm equipment industry is not a war industry, but still very definitely an industry which promises to be an important, albeit indirect, beneficiary predicated mainly on higher agricultural prices and substantially increased farmer purchasing power. Prospects are not dependent upon the receipt of actual war orders nor are they involved in neutrality legislation. The uncertainties present evolve from two major considerations: (1) the extent of the war and (2) the possible effect of the loss of a large portion of present export markets.

As to the extent of the war that question must remain unanswered but the majority of responsible opinion does not see any early conclusion. England already is preparing for a three-year war.

Foreign sales of farm equipment, which in the first seven months were already down 15% from 1938 levels, will probably diminish rapidly as most European nations revert from a peace time to a war economy. Even if demand revives subsequently, under the pressure of the need of intensive cultivation, there is the matter of foreign exchange restrictions. On the whole, therefore, foreign business over the term of the war is likely to be a minor factor in the sales and earnings of the industry.

The loss of export sales, however, could be more than offset by improving domestic demand, perhaps not immediately but most certainly in time, given sustained higher prices for farm products. Profit margins which have been impaired by rising costs will tend to widen with increased volume and some increase

in prices against a more prosperous farm background could doubtless be made without jeopardizing sales.

All in all, the facts appear to support the contention that better days are ahead for the farm equipment industry. War is a dominant factor in this prospect but the shares of representative farm equipment companies have not, as yet, at least, been favored by the same degree of speculative enthusiasm as the more obvious "war babies." The group is still reasonably priced in relation to no more than a modest improvement in earnings, suggesting the possibilities of later speculative and investment gains.

Five Stocks Favored for War Market

(*Continued from page 624*)

Montgomery Ward & Co.

While in no sense can Montgomery Ward be regarded as a "war baby," the company, nevertheless, has an important stake in the purchasing power of the farmer, and already the war has added many millions of dollars to potential farm income through substantially increased prices for wheat, corn, live stock and other agricultural commodities. Increased farm income inevitably will be translated into substantial sales and earnings gains for Montgomery Ward.

In addition to being the second largest mail-order enterprise, Montgomery Ward is also one of the foremost retail organizations in the country with the bulk of sales being derived from retail stores operating in both large urban and smaller communities throughout the nation. The company has become virtually a chain department store organization and has been successful to the point where it has been able to give increasingly stiff competition to some of the older established department stores in territories where retail units are located.

Montgomery Ward & Co. in the first half of the current fiscal year showed the largest net profit ever recorded by the company for a comparable period. Gross sales increased 15.1%, while earnings were more than double those for the first six months of the 1938 fiscal year. Net profits this year of $10,315,808 were equal, after dividends on the $7 Class A stock, to $1.84 per share on 5,217,147 shares of common stock. This compared with $5,139,526, or 85 cents per share for the common in the six months ended July 31, 1938. August sales recorded a gain of 18.7% and for the seven months to August 31 the gain in sales amounted to 15.6%. Particularly significant was the fact that inventories on July 31 were about $11,500,000 larger than a year ago, suggesting that the company is under no immediate necessity to replenish stocks for the purpose of handling increased business. Fall and Winter prices for many of its products were reduced, but could doubtless stand a modest increase later, without impairing sales prospects.

For the fiscal period ended January 31, last, dollar sales totaled $413,961,241, slightly less than the volume for the previous fiscal period.

Forthcoming Dividend Meetings

Company	Time	Date
Abraham & Straus	3:00	9/29
Adams-Millis	11:00	10/9
Alaska Juneau	11:00	9/28
Allied Mills	——	11/22
American Machine & Foundry	3:00	10/4
Barnsdall Oil	11:00	9/29
Boston Edison	2:30	9/26
Canadian Exploration Co	——	9/30
Century Ribbon Mills 7% Pfd	9:00	10/3
Colonial Trust of Pittsburgh	11:45	9/28
Col. Gas & Elect. all Pfds	12:15	10/5
Continental Can	9:30	10/11
Continental Ins	11:00	12/21
Dow Chemical Com. & 5% Pfd	10:00	10/24
Fed. Dept. Stores Com. & 4¼% Pfd.	11:30	9/30
Fireman's Fund Ins.	2:00	9/28
Fisk Rubber 6% Pfd.	11:00	9/28
General Theatres Equipt	4:00	9/26
Hackensack Water	——	10/25
Hercules Powder Pfd	10:00	9/27
Home Ins. Co	12:00	10/9
Homestake Mining	3:00	10/4
Int'l Cigar Mach	——	10/4
Lee Tire & Rubber	1:30	12/28
Libbey-Owens-Ford	2:00	11/14
Madison Square Garden	3:30	10/26
May Dep't. Store	10:00	11/2
Meier & Frank, Inc	——	10/17
Melville Shoe Com. & 6% Pfd.	2:00	10/2
National Power & Light	3:15	10/19
Norfolk & Western	11:40	10/24
Pacific Lighting	1:45	10/4
Phelps Dodge	2:00	11/15
Phillips Pet. Co	——	10/24
Reading Co. 4% 1st Pfd	2:00	10/24
Standard Oil of N. J.	11:00	11/1
United Gas Impt. Com. & Pfd	3:15	10/24

All meetings are on common stock unless otherwise specified.

Volume sales, on the other hand, were about 5% ahead of 1937, the slight decline in dollar sales having been entirely due to reduced selling prices. Aided by a savings of $1,500,000 in Federal taxes, the company's net profit for the fiscal year ended January 31, last, was slightly ahead of the previous year, the total of $19,644,956, comparing with $19,210,029 in the fiscal period ended January 31, 1938. Applied to the 5,217,147 shares of common stock, earnings in these years were equal to $3.50 and $3.41 per share, respectively, after allowing for dividends on the $7 Class A stock.

Preceded by only 205,000 shares of Class A stock, the common stock of Montgomery Ward affords an equity in an established and progressive enterprise, favored by prospects which should make the shares increasingly valuable over the months ahead. Recent dividends have been at the rate of 25 cents per share quarterly.

Ahead:—

(Continued from page 611)

the remarkable increases in business it has been enjoying. In most cases both operations and backlogs have been at record heights, yet the group has been disappointing in its market action. As shown on the chart the behavior of the aviation issues has not been as poor as it might have seemed since the big markup toward the end of 1938, but this is at least partially due to the inclusion of several air transportation companies which rarely move exactly with the manufacturing enterprises.

One characteristic common to all the groups charted here is that they are not suffering from lack of volume. In two cases sales, either in dollars or units of output, are at all-time peaks; in the case of the oils, business at the selling end could hardly be much better. The extreme divergence in market trend gives an excellent demonstration of the falsity of the idea that improving business makes all stocks gain together, that to take advantage of a recovery it is necessary only to concentrate in leading issues without great pains in the selection. Although business in general has picked up strongly since 1933, and the experience of these three industries has been very fortunate in regard to the development of customers, study of their group action reveals the facts which have the most direct meaning for the investor.

The accompanying table lists several of the more prominent issues in each group. Omitted in the table but included in calculating group indexes are the following:

AVIATION: Boeing, Consolidated Aircraft, Glenn Martin, Sperry Corp. Transcontinental & Western, United Aircraft, and United Air Lines.

PETROLEUM: Amerada, Barnsdall, Consolidated Oil, Continental Oil, Houston Oil, Mid-Continental Petroleum, Ohio Oil, Plymouth Oil, Pure Oil, Richfield, Seaboard, Shell Union, Socony-Vacuum, Standard of Indiana, Superior Oil, Texas Gulf Prod., Texas Pacific Coal & Oil, Tidewater Associated, and Union Oil.

PUBLIC UTILITIES: American & Foreign Power, American Power & Light, Columbia Gas, Commonwealth Edison, Electric Power & Light, Engineers Public Service, International Hydro-Electric "A", National Power & Light, Pacific Gas, Southern California Edison, Standard Gas, Stone & Webster, and United Gas Improvement.

Happening in Washington

(Continued from page 603)

duce new surpluses above world needs even though war continues several years.

South American trade relations are expected to improve as European competition there lessens and those nations get more cash through sales to allies. While they will compete with us in attempting to supply Europe's foodstuffs, we are favored by a shorter trade route, meaning less convoying.

Interest rates generally will rise moderately, in opinion of government credit experts, who foresee considerable increase in demand for business loans. Plenty of machinery is available for protecting government bond market from the effects of investor shifting from governments to commercial loans.

Answers to Inquiries

(*Continued from page 627*)

1936 level. While the dividend record of the company has been irregular, total disbursements this year should be higher than in 1938. We recommend long term retention of your 150 shares.

Tubize Chatillon Corp.

In view of the recent decision of Tubize-Chatillon to clear up arrearages of $1.75 per share on the preferred, are dividends on the common likely in the near future? I have 150 shares bought at 13 and would like your opinion as to whether I should continue to hold or sell.—Mrs. Z. W., Hamilton, Ont., Can.

The Tubize Chatillon Corp., formed in 1930 as a consolidation of the former Tubize Artificial Silk Co. of America and the American Chatillon Corp. has greatly enlarged its rayon producing facilities in recent years. Its Georgia plants have a yearly capacity of 16,000,000 pounds of viscose rayon yarn, and 4,000,000 pounds of acetate yarn. The company's knitting mills in Virginia use about one-third of the viscose yarn produced. Tubize also owns the valuable Singmaster patents for delustering yarns and these are leased to other producers on a royalty basis. The company earned $1.04 per common share in 1937 while there was a deficit of $2.85 per junior share in 1938. A falling demand in the first half of 1938 and heavy inventory writeoffs due to the decline in rayon prices brought about the deficit in 1938. Prices have shown a firming tendency and royalty payments should increase this year. While early dividends are not likely on the common stock, we believe the issue has attractive price appreciation possibilities and recommend longer term retention.

As I See It!

(*Continued from page 595*)

Stalin is not likely to permit himself to become the tail to Hitler's kite—which honor still belongs to Il Duce.

The deal with Japan is plainly merely an armistice of advantage to Russia at the moment because it gives her a free hand to settle matters in Europe.

Has Hitler fallen into a trap? The reasons stated by Molotoff for the Russian invasion of Poland were very ambiguous. He not only announced that Russia was going to "protect" White Russia and the Ukraine, but also to "protect" the Poles who were without a government. We may well ask the question—from whom was he protecting the Poles? It must be evident that Stalin would not be interested in furthering a Pan-Germanic movement; but he would be interested in furthering a Pan-Slavic movement, in which he could assert his leadership.

On the other hand, up to this present Russian coup Hitler had shown a greater capacity for leadership than was evidenced in Russia, Japan or Italy. In common, all four countries are seeking adventure—a distribution of territory and the world's goods. Only further events will give us the answer.

Copper Enters Broad Expansion Phase

(*Continued from page 605*)

totaled 167,408 tons. As members of the foreign copper cartel, neither company is permitted to export copper mined in the United States, although last July this restriction was temporarily lifted to permit these companies, caught short of spot copper, to participate in a French order for 50,000 tons. Whether Kennecott and Anaconda would be permitted to export domestic copper, if all restrictions on production are removed, is not known at the present time.

In the face of these numerous factors, it is difficult to avoid the conclusion that for the present at least no boom in the foreign demand for domestic copper is likely. It is even doubtful, with Germany and Great Britain either out of the market or obtaining copper from other sources, that foreign production of such companies as Anaconda and Kennecott will be able to maintain the pace of 1938 and the first seven months of this year. Such a prospect, however, could admittedly be changed over night if Italy and Russia enter the war on the side of Germany. In the meantime, however, France and England will husband their financial resources and endeavor to buy copper as cheaply as possible in Canada and South Africa.

Such being the case, and granting that the outbreak of war was the signal for raising domestic copper prices, it by no means follows that the present domestic price of 12 cents is vulnerable. Primarily, the higher price has the support of a good statistical background. Production of refined copper in the United States during July was less than in any month since last October. Consumption of refined copper, on the other hand was the *largest* for any month since last October. As a result stocks of refined copper were down to 316,543 tons, equal to a little more than five months' supply based on *July consumption*. Undoubtedly consumption in August increased substantially over July and the trend is sharply upward although as yet there has been no haste on the part of producers to step up output.

Despite the fact that copper fabricators indulged themselves in something of a buying spree in July, the outbreak of war caught domestic

fabricators with low supplies. At the end of July fabricators reported unfilled sales of copper products totaling 250,457 tons an increase of 115,555 tons, while unfilled purchases of new copper from producers during the month gained 112,106 tons and totaled 233,696 tons at the end of July. Not only did the increase in fabricators' sales exceed purchases of new copper by 3,449 tons but total unfilled orders were 16,761 tons more than the total undelivered purchases of new copper.

It is hardly surprising, therefore, that fabricators scrambled to buy copper during the first week of the war. The prospect of being compelled to replenish inventories at rising prices was not a pleasant one. In the first week of September copper sales totaled 113,095 tons against 22,008 in the same period of August, and would have been much larger had not several producers withdrawn from the market.

Since then buying activity has quieted down somewhat. Fears of a runaway market were allayed by the action of Great Britain in placing a maximum price on copper, the fall in the pound, and the realization that for the present at least export demand is unlikely to attain proportions sufficiently large to raise the specter of a serious copper shortage. President Roosevelt's statement to the effect that with 12½-cent copper most producers could make plenty of money has probably had a stabilizing effect upon the domestic market, although prices are still within a half cent of this "limit."

It is extremely unlikely that this arbitrary price would hold should fabricators demand be augmented by foreign demand for finished copper products. Reports are current that a French-British buying mission will be set up in the United States and, with the strong likelihood that the Neutrality Act will be modified, large war orders might be placed for munitions and other war materials requiring substantial quantities of copper. It is in this manner that the European war seems likely to influence the more immediate copper prospect rather than in the direct demand for export copper.

Based on this line of reasoning, leading domestic producers would appear to have considerable advantage over producers with the major portion of their output located outside the United States. Anaconda, for example, with the bulk of its production in South America is stymied to a large extent by the 4-cent duty on imported copper, and would require higher prices to make it worthwhile for the company to ship copper to the United States. This would also apply to Cerro de Pasco. Kennecott and Phelps Dodge, the latter a strictly domestic producer, are the largest domestic producers. Other domestic producers include Magma, Miami, Calumet & Hecla, Inspiration and Consolidated Coppermines. In addition, American Smelting, Anaconda, Kennecott and Phelps Dodge own or control important copper fabricating units, and would be in a position to cash in importantly on war business.

Before war became a factor the copper industry was looking up both statistically and industrially. With the injection of a European war into the picture the outlook has taken on a definitely dynamic aspect.

"The World's Most Profitable Business Enterprise"

(*Continued from page* 609)

on new model production as a result of labor disturbances in the parts industry, GM may well top $4 a share this year. What it can earn in 1940, given any kind of a break as regards the labor situation and allowing for substantial war business and general economic recovery in this country, is a moot question, but probably one that will be resolved in favor of materially higher prices for its common stock.

Dividend payments have been continuous but have varied considerably over the past decade, ranging between a high of $4.50 in 1936 and a low of $1.25 in 1932. Last year payments amounted to $1.50 and this year have been at the rate of 75 cents quarterly.

Financially, Motors is virtually impregnable. As of June 30, 1939, current liabilities of $134,364,626 were amply covered by cash alone of $245,025,972, while total current assets amounted to $582,752,662. Inventories, at $153,231,544, were down 13½% from year earlier levels.

The company's capitalization is comparatively simple. Aside from $100,000,000 of 3 and 3¼% debentures of General Motors Acceptance Corp., whose operations are not consolidated with those of the parent concern, GM has no funded debt. Only capital claim senior to the 42,942,832 shares of $10 par common is represented by 1,835,644 shares of no-par cumulative $5 preferred. Leverage afforded by dividend requirements on the latter is of negligible importance at current earnings levels.

What of the future? Well, certainly Motors today is nothing like the speculative proposition it once was. There will be no more opportunities as heretofore to put a thousand dollars in its stock and then, simply by sitting tight and exercising all options, run your stake up to a third of a million. But on the other hand, the company is by no means through and there is every indication that its earnings ceiling is still some indeterminate distance above the best figures reported to date. In a word, GM is no issue to be short of for the long pull.

Improved Outlook for Barnsdall

(*Continued from page* 619)

to 9,102,607 barrels in 1937 and 8,504,242 barrels in 1938.

Marketwise Barnsdall has not kept pace with the war babies, though it comes under that heading. This is, however, in line with the action of the oil group as a whole in any fast market. The industry gathers momentum slowly, which imparts a degree of steadiness to its securities. A long war in Europe—and in the opinion of experts modern war, involving as it does the entire nation must be drawn out—will make heavy demands on American oil producers. Together with the steady uptrend of domestic business, this should result in marked improvement for the oil stocks. Though not as large and well known as some of the companies, Barnsdall offers a speculative chance to participate in the strong forward move of the industry. At current levels of around 17 it is low priced in relation to potential earnings and merits consideration.

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